BALANCED BUDGET 2005

Towards a Golden Decade for British Columbia

BRITISH COLUMBIA

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BUDGET AND FISCAL PLAN
2005/06 – 2007/08

BRITISH
COLUMBIA

Ministry of Finance

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BRITISH COLUMBIA

VANCOUVER 2010

February 15, 2005

As required by Section 7(d) of the *Budget Transparency and Accountability Act* (BTAA), I am confirming that the *Budget and Fiscal Plan* contains the following elements:

- Economic and fiscal forecasts for 2005/06, which are detailed in Part 2 and Part 5.

- Material economic, demographic, taxation, accounting policy and other assumptions underlying the 2005/06 economic, revenue, expenditure, surplus and debt forecasts. These and other major areas of risk to the plan known at this time are disclosed in the risks section in Part 1 and in the material assumption tables in the appendices. Also, key assumptions regarding ongoing or anticipated negotiations are disclosed, including:

  - For budget planning purposes the U.S. lumber dispute is assumed to be unresolved;
  - BC's share of the additional $5 billion in federal Child Care funds announced by the federal government in 2004 is not included in the revenue forecast because the annual federal amounts have not been confirmed. Current planning assumptions would see any new funds committed to child care funding with no anticipated bottom line effect; and
  - No equalization revenues have been assumed beyond 2005/06. The federal government has indicated they will determine a new mechanism for allocating equalization funding among provinces by March 2006, based on the advice of an independent panel.

- Current advice of the Minister's Economic Forecast Council on economic growth, including the range of forecasts for 2005 and 2006. This is found at the end of Part 5.

Although not required by the BTAA, the most material assumptions for the subsequent two years of the fiscal plan are also disclosed. The current public sector compensation mandate of 0-0-0 until March 31, 2006 remains unchanged. As the next mandate is still under development, the fiscal plan does not include funding for compensation increases associated with this mandate for 2006/07 and 2007/08.

The three-year ministry spending plans included in this budget have been developed following reviews by Treasury Board and Government Caucus Committees. Crown corporation forecasts have been approved by the respective Boards of Directors. In addition, the *Budget and Fiscal Plan* is accompanied by service plans for ministries and Crown corporations, detailing the expected outcomes given the financial resources provided.

School districts, universities, colleges and health authorities/societies (the SUCH sector) forecasts have been provided by the management of the various organizations, with broad policy assumptions and assistance provided by the Ministries of Health Services, Advanced Education and Education. Since universities and colleges submitted their forecasts ahead of the formal board approval process and ahead of recent tuition fee policy announcements, final approved financial plans may differ from the management forecasts included in the *Budget and Fiscal Plan*.

The *Budget and Fiscal Plan* conforms in all material respects to the standards set by the accounting profession for senior governments in Canada, referred to as generally accepted accounting principles or "GAAP". As required under section 7(e) of the BTAA, the forecast allowance, which is an adjustment to the most likely forecast of the 2005/06 surplus, is also disclosed.

I would like to thank staff in all government ministries, Crown corporations and the SUCH sector for their work in developing the plans and preparing these multi-year economic and financial forecasts. I would like to especially acknowledge the hard work and dedication of my colleagues in the Ministry of Finance for the significant achievement of preparing a second balanced budget plan.

Tamara Vrooman
Deputy Minister and
Secretary to Treasury Board

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Summary: BUDGET AND FISCAL PLAN – 2005/06 TO 2007/08

Fiscal Plan Summary – 2005/06 to 2007/08

($ millions)	2004/05 Budget	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Revenue	30,640	32,726	33,076	33,497	34,244
Expense	(30,440)	(30,986)	(32,456)	(32,847)	(33,494)
Surplus before forecast allowance	**200**	**1,740**	**620**	**650**	**750**
Forecast allowance	(100)	(300)	(400)	(450)	(550)
Surplus	**100**	**1,440**	**220**	**200**	**200**
Capital spending:					
Taxpayer-supported capital spending	1,943	2,231	2,795	2,508	2,072
Total capital spending	2,934	3,187	3,857	3,755	3,342
Provincial Debt:					
Government direct operating debt	16,558	14,175	13,990	13,633	12,744
Taxpayer-supported debt	32,115	28,613	29,588	30,479	30,573
Total debt	39,395	36,063	37,332	38,748	39,599
Government direct operating debt-to-GDP ratio	11.3%	9.1%	8.6%	8.0%	7.2%
Taxpayer-supported debt-to-GDP ratio	21.8%	18.5%	18.2%	18.0%	17.3%
Total debt-to GDP ratio	26.8%	23.3%	23.0%	22.9%	22.4%

Building on the Financial Record

Budget 2005 continues government's legislated commitment to balanced budgets. Following an estimated surplus of $1.44 billion in 2004/05, the updated fiscal plan includes a surplus of $220 million for 2005/06, and surpluses of $200 million for each of the 2006/07 and 2007/08 fiscal years.

The updated fiscal plan realizes the benefits of the fiscal and economic strategy set out in February 2002, that was based on two main elements:

- Building a strong, vibrant and competitive economy; and
- Balancing the budget beginning in 2004/05 while protecting funding for health care and education.

Government has successfully met its budget targets for each of the last three years, and the economy is now gathering momentum. In November 2004, Standard and Poor's upgraded its BC credit rating to AA from AA-. In making this decision, the rating agency noted BC's record for consistently meeting annual budgetary targets, solid economic performance, enhanced transparency of budgetary reporting, and relatively low taxpayer-supported debt burden.

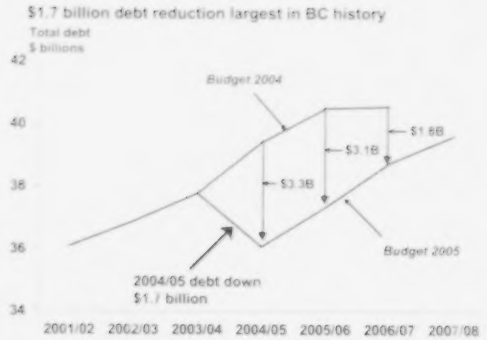
Debt forecast improves

Total provincial debt at the end of 2004/05 is forecast at $36.1 billion, a $1.7 billion reduction from 2003/04. This is the largest annual debt reduction in BC history.

To meet the transportation, health and education infrastructure needs of a growing economy, significant capital investments are planned over the coming years. These investments will result in additional debt.

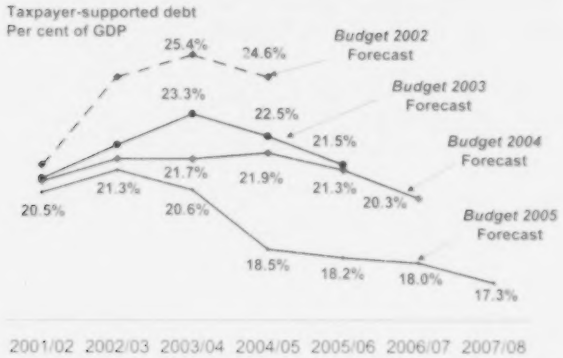
Sustainable surpluses following 2004/05 revenue gains
($millions)

$1.7 billion debt reduction largest in BC history



Government has committed in its strategic plan to ensure that taxpayer-supported debt as a percentage of GDP declines after the budget is balanced in 2004/05, keeping debt affordable for the future generations of British Columbians. Consistent with this commitment, taxpayer-supported debt as a percentage of GDP is forecast to decline in each of the next three years.

Debt burden declines



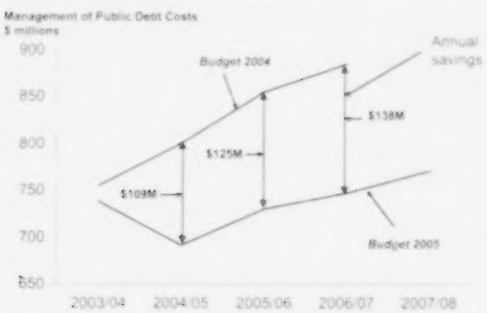
Lower Operating Debt Reduces Interest Costs

Annual reductions in government direct operating debt contribute to $125 million lower interest costs in 2005/06, providing additional fiscal flexibility.

The $125 million savings in 2005/06 interest cost helps pay for:

- rate increases for persons with disabilities ($56 million);
- policing strategy and related court and correction costs ($44 million);
- new safety programs for women and girls ($13 million); and
- social housing to support independent living ($12 million).

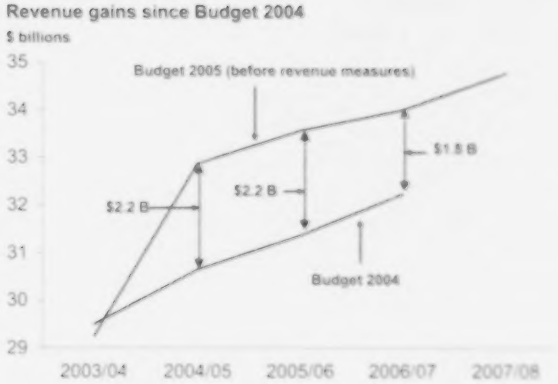
Lower operating debt yields interest cost savings



Revenue increases provide new choices

Compared to *Budget 2004* and before any tax measures, revenues are forecast to increase by $2.2 billion in 2004/05 and 2005/06, reflecting stronger overall economic activity, higher energy prices, and increased federal contributions. In 2006/07, this increase falls to $1.8 billion reflecting the end of interim federal equalization allocations combined with declines in other revenue sources such as property transfer taxes, Crown corporation net incomes and forestry revenues. This higher level of government revenues now provides the basis for expanded service levels, lower taxes and lower direct operating debt, while maintaining a balanced budget.

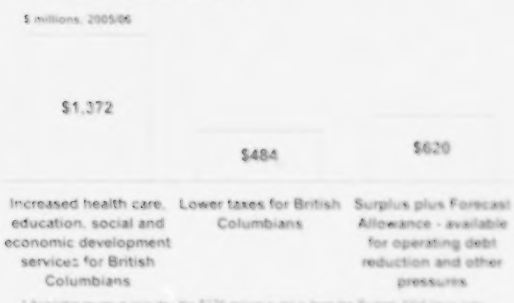
Revenue gains since Budget 2004



The available revenues have been allocated amongst:

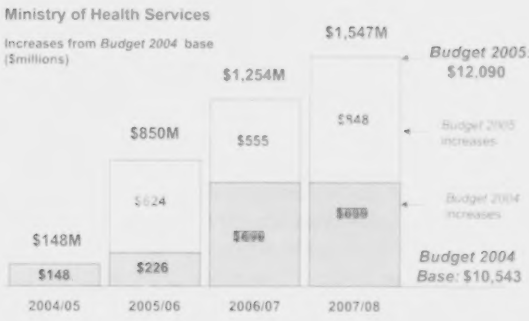
- new spending commitments for health care, education, and priority initiatives for children, communities, safety, economic development, culture and the environment;
- tax reductions for those British Columbians at lower income levels, and to ensure key business sectors remain competitive; and
- the surplus and forecast allowance, which if unspent, reduce direct operating debt.

Allocation of available revenues*


$ millions, 2005/06
$1,372
$484
$620
Increased health care, education, social and economic development services for British Columbians
Lower taxes for British Columbians
Surplus plus Forecast Allowance - available for operating debt reduction and other pressures

* Available revenue includes the $275 million surplus from the Budget 2004 fiscal plan.

Health Care Funding



Budget 2005 maintains BC's commitment to health care, as health funding will increase by over $1.5 billion by 2007/08 – the largest ministry increase. BC continues its promise to reinvest every dollar of federal health funding back into health care services focused on improving access to care and reducing wait times. The new funding will provide for enhanced public health initiatives to promote healthy lifestyles, immunization programs, early screening for children with key health problems, and improved wait times for critical services such as cancer, cardiac, joint replacements and sight restoration.

Communities

Budget 2005 also commits additional funding to strengthen BC communities, by focusing on people in need. Additional funding is included in this budget for contributions to persons with disabilities, for initiatives aimed at winter homelessness and for social housing. As well, the New Era commitment to share traffic fines with municipalities is now fulfilled, enabling local governments to fund improved policing or other services at the community level.

Communities

($ millions)	2004/05	2005/06	2006/07	2007/08
Traffic fine revenue sharing	32	29	17	17
Skilled immigrant accreditation	-	5	5	5
Public library funding	-	3	4	5
Arts funding	25	3	3	3
Persons with disabilities	18	56	58	62
Adult community living services	-	22	28	41
Homelessness	8	15	8	17
Social housing – independent living	-	12	10	14
Family law funding	-	5	5	5

Safety

Budget 2005 provides new funding to help address crime and violence, increasing the provincial police force by an additional 215 RCMP officers. The corresponding additional resources in the courts and the correctional system are also provided.

Safety

($ millions)	2004/05	2005/06	2006/07	2007/08
Personal safety for women and girls	-	13	12	12
Policing strategy	-	35	42	45
Related courts and corrections costs	-	9	14	16

Enhancing Services for Children

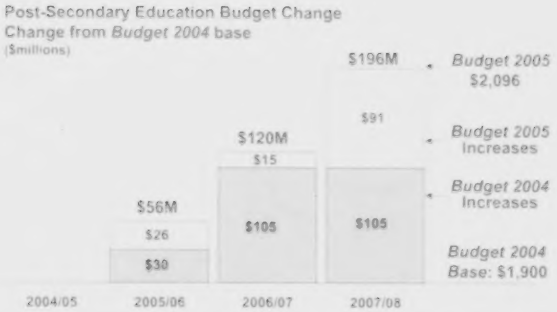
Budget 2005 provides $241 million in additional funding to support greater access to child care, to help protect vulnerable children and youth, and to provide additional services for special needs children. Anticipated federal funding for child care has not been included in *Budget 2005*; the new funds will be committed to the child care budget once details of the transfer arrangements are known and the accounting treatment is confirmed.

Children

($ millions)	2004/05	2005/06	2006/07	2007/08
Increased access to childcare	-	4	1	-
Children and Youth with special needs				
– Assessments	-	3	5	6
– Reduced waitlists	-	11	14	17
– Services for school aged children	-	26	26	30
Early childhood screening	3	21	25	27
Children in care and Family Development	-	8	9	9

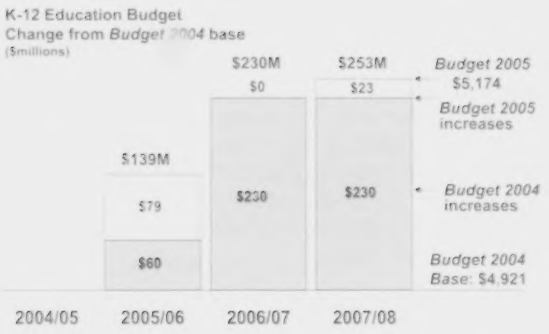
Post-Secondary Education and Skills Development

The government continues to develop a top-notch education system for students of all ages. Additional funds were provided in *Budget 2004*, and are increased in *Budget 2005*, to expand access to post-secondary education. By the end of 2007/08 there will be 16,205 new seats, and 25,000 new spaces will have been added at BC's universities and colleges by 2010. *Budget 2005* also provides over



$450 million over the next three years in funding for a comprehensive student financial assistance system including loan-reduction and loan-forgiveness programs.

K-12 Education



Budget 2005 accelerates the *Budget 2004* increase in K–12 funding to 2005/06, continuing the trend of increased per pupil funding to school districts. This increased funding will ensure that every student has access to school libraries and quality learning resources, music and art programs and improved services to support every special needs student. Funding is also provided to seismically upgrade all at-risk schools within 15 years.

Promoting Economic Growth

Budget 2005 provides funding for BC's natural resource industries; promoting economic growth in areas such as tourism; participating in local infrastructure funding with other governments; and accelerating where practical provincial commitments to the 2010 Olympic and Paralympic Winter Games.

Economic Development Initiatives

($ millions)	2004/05	2005/06	2006/07	2007/08
Agriculture and aquaculture	41	4	2	2
Forestry initiatives	123	61	19	63
Mining plan, geoscience, oil and gas	45	45	11	9
Municipal and regional infrastructure	92	75	27	13
Tourism marketing	14	24	22	21

Protecting the Environment

Additional funding has been provided in *Budget 2005* to support land use planning, contaminated site investigation and remediation, the drinking water action plan, and other conservation activities.

Environment

($ millions)	2004/05	2005/06	2006/07	2007/08
BC Conservation Corps, park services	–	5	5	6
Contaminated sites remediation	25	21	22	23
Drinking water action plan	–	2	3	3
Environmental assessment capacity	–	1	2	2
Land-Use planning	2	12	8	8

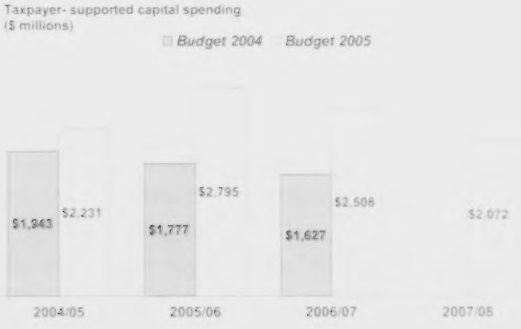
Public Sector Compensation

The current public sector compensation mandate of 0-0-0 until March 31, 2006 remains unchanged. Seventy per cent of all public sector employees have agreements in place under this mandate. As the next mandate is still under development, no compensation increase has been included in the fiscal plan. As government has publicly acknowledged the need for compensation increases in the next wage mandate, future wage settlements are likely to create a pressure against the surplus and forecast allowance in 2006/07 and 2007/08.

Capital

Budget 2005 includes a capital plan for ministries and taxpayer supported agencies that is substantially higher than last year's plan, including an additional $1 billion in 2005/06 and $881 million in 2006/07. This reflects increased capital spending to address government priorities in the K–12, post-secondary and health sectors along with transportation projects. The expanded level of capital spending is financed in part by new borrowing.

Expanded capital plan the main driver of new debt



Robust economic performance to continue

The BC economy performed impressively in 2004, with robust domestic demand evident in strong growth rates for employment, consumer spending, home construction and non-residential investment. The export sector also gathered momentum early in the year, fueled by demand for forest products and other industrial goods such as copper, aluminum and molybdenum.

This broadly based economic activity is expected to yield real economic growth of 3.3 per cent in 2004. The Ministry of Finance forecasts economic growth of 3.1 per cent for 2005 and 3.0 per cent in 2006, slightly below the independent Economic Forecast Council's average.

BC economic growth forecast at 3.0 per cent or higher

2004/05 forecast

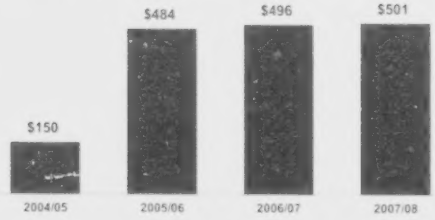
The updated fiscal plan reflects government's decision to allocate $452 million from the 2004/05 surplus to one-time or accelerated spending initiatives, matching the one-time nature of some of the 2004/05 revenues. *Supplementary Estimates* will be introduced in the Legislature to authorize this additional spending.

Ensuring a fair and competitive tax system

Since 2001, the government has cut taxes by a total of $1.4 billion to improve competitiveness and make the tax system more fair. The cuts include:

- A 25 per cent average reduction in provincial personal income taxes and a 28 per cent reduction for taxpayers earning less than $30,000;
- An 18 per cent cut in the general corporate income tax rate;

Financial impact of *Budget 2005* revenue measures
($ millions)



- Exempting production machinery and equipment from the provincial sales tax;
- Eliminating the corporation capital tax for general corporations; and
- Introducing a range of more targeted cuts to improve the competitiveness of sectors such as mining exploration and provincial ports.

In October 2004, the provincial sales tax rate was reduced to 7 per cent, reversing a half point increase introduced in 2002 to fund compensation increases for health care professionals.

Budget 2005 builds on this foundation by introducing new cuts to:

- reduce taxes for those with low and moderate incomes;
- help meet environmental goals; and
- further enhance competitiveness.

The new $120 million BC Tax Reduction will ensure that low and moderate income British Columbians have the lowest income taxes in Canada. The new tax credit will eliminate provincial personal income taxes for British Columbians earning less than $15,500 and will reduce taxes for those earning under $26,000. The BC Reduction will benefit 730,000 British Columbians of which 330,000 will have their provincial income taxes eliminated. In addition, the MSP premium assistance program will be enhanced effective August 1, 2005 to reduce or eliminate premiums for about 215,000 people, many of whom are seniors.

In recognition of the impact of rising home values, and as previously announced, the threshold at which the home owner grant starts to be phased out is increased by $100,000 to $685,000 and the grant for homes valued above that will be phased out more slowly. In addition, the thresholds for the First Time Homebuyers program under the property transfer tax will be raised by 18 per cent across the province.

The government will promote greenhouse gas reductions and energy conservation by enhancing the incentives available for hybrid vehicles and introducing a new provincial sales tax exemption for highly efficient residential heating equipment effective February 16, 2005. Both of these measures will be time-limited.

A partial property tax exemption is introduced for environmentally friendly energy projects such as run of the river hydro projects. This will make it easier for BC Hydro to achieve its goal of 50 per cent of incremental power requirements from clean energy sources.

The threshold income level that will qualify for the provincial small business corporate income tax rate is increased to $400,000 from $300,000 effective January 1, 2005.

The Mineral Exploration Tax Credit will be extended for ten years to 2016. The extension will build on the renewed interest in BC's mining industry and the resurgence in mineral exploration.

To meet competitive pressures at home and abroad, and as an interim measure, the province's film tax credits are increased until March 31, 2006. The basic Film Incentive BC credit available for domestic productions is increased to 30 per cent from 20 per cent and the productions services tax credit for foreign productions is increased to 18 per cent from 11 per cent, effective January 1, 2005.

Combined with the October sales tax cut, these measures will reduce revenues by $484 million in 2005/06, $496 million in 2006/07 and $501 million in 2007/08.

Prudent Fiscal Management

A $300 million forecast allowance is included in 2004/05 to protect the bottom line against unanticipated revenue shortfalls or spending pressures, which may arise before the end of the fiscal year. *Budget 2005* includes forecast allowances of $400 million in 2005/06, $450 million in 2006/07, and $550 million in 2007/08 to protect the fiscal plan from revenue risks such as sudden changes in energy prices or forest fires or spending pressures such as future public sector wage settlements.

Over and above the expected surpluses and forecast allowances, a $270 million contingency vote is included in 2005/06 and 2006/07 for unexpected spending requirements by government ministries. The contingency vote is increased by $40 million to $310 million in 2007/08 to include a portion of the 2010 Olympics contingency budget, as part of the government's $600 million commitment to the 2010 Games.

Balanced, Transparent and Accountable

Balanced budgets are required under the British Columbia's balanced budget legislation. The three-year fiscal plan is also required to conform to the standards set by the accounting profession for senior governments in Canada referred to as generally accepted accounting principles or "GAAP". Continuing the practice established in *Budget 2004*, financial forecasts for schools, universities, colleges and health authorities (the SUCH sector) are incorporated into government's revenue, spending and balance sheet projections.

To complete government's accountability framework, the three-year fiscal plan is complemented by government's strategic plan, and service plans that detail the goals, objectives and performance targets of ministries and Crown corporations. Government ministers are subject to ministerial salary deductions for not achieving financial targets and ministers of state are subject to salary deductions if performance targets are not achieved.

Part 1: THREE-YEAR FISCAL PLAN

Table 1.1 Three Year Fiscal Plan – Operating Statement

($ millions)	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported programs and agencies:					
Revenue[1]	28,568	30,273	30,746	31,245	32,114
Expense[1]	(30,440)	(30,986)	(32,456)	(32,847)	(33,494)
Taxpayer-supported balance	**(1,872)**	**(713)**	**(1,710)**	**(1,602)**	**(1,380)**
Commercial Crown corporation net income	2,072	2,453	2,330	2,252	2,130
Surplus before forecast allowance	**200**	**1,740**	**620**	**650**	**750**
Forecast allowance	(100)	(300)	(400)	(450)	(550)
Surplus	**100**	**1,440**	**220**	**200**	**200**

[1] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

Introduction

Budget 2005 delivers on government's legislated commitment to balance provincial budgets beginning in 2004/05, tabling a second balanced budget. Following an estimated surplus of $1.44 billion in 2004/05 driven by strong economic performance, high commodity prices, increased federal transfer payments and improved net incomes of commercial Crown corporations, the updated fiscal plan forecasts a surplus of $220 million for 2005/06, and surpluses of $200 million for each of the 2006/07 and 2007/08 fiscal years.

The updated fiscal plan realizes the benefits of the fiscal and economic strategy set out in February 2002, that was based on two main elements:

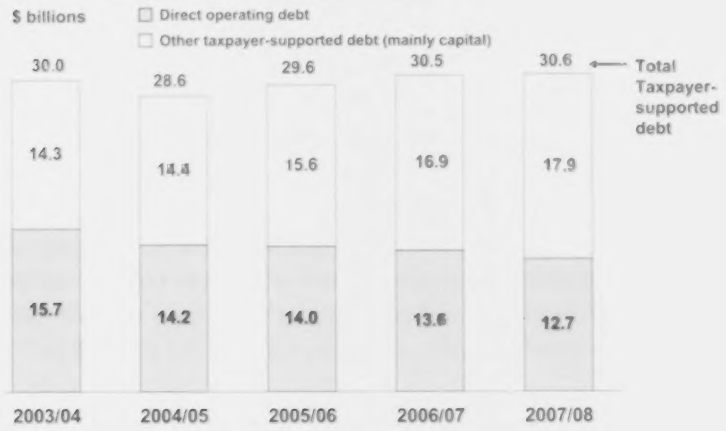
- building a strong, vibrant and competitive economy; and
- balancing the budget beginning in 2004/05 while protecting funding for health care and education.

Chart 1.1 Sustainable surpluses following 2004/05 revenue gains

Government has successfully met its budget targets for each of the last three years. The economy is now gathering momentum (government's economic development initiatives to ensure the British Columbia economy remains competitive are summarized in the British Columbia's Strong and Vibrant Economy topic box on page 72). In November 2004, Standard and Poor's upgraded its BC credit rating to AA from AA-. In making this decision, the rating agency noted BC's record for consistently meeting annual budgetary targets, solid economic performance, enhanced transparency of budgetary reporting, and relatively low tax-supported debt burden.

Total provincial debt at the end of 2004/05 is forecast to total $36.1 billion, a $1.7 billion reduction from 2003/04. This is the largest annual debt reduction in BC history. Government direct operating debt – the debt resulting from cumulative deficits and surpluses of the Consolidated Revenue Fund – falls $1.5 billion from 2003/04.

Chart 1.2 Direct operating debt declines



To meet the transportation, health and education infrastructure needs of a growing economy, significant capital investments are planned over the coming years. These investments will result in additional debt.

However, consistent with government's strategic plan commitment, the taxpayer-supported debt to GDP ratio continues to fall, keeping debt affordable for future generations of British Columbians. Additional information on the debt outlook is found starting on page 47 and in the topic box on page 55.

The government revenue forecast is based on income growth, demand, commodity prices, the exchange rate and other related assumptions included in the economic forecast. Revenue also includes forecasts submitted by Crown corporations and organizations in the SUCH sector.

By comparison to the *Budget 2004* plan, revenues (before revenue measures) are forecast to have increased by $2.2 billion in 2004/05 and 2005/06, reflecting stronger overall economic activity, higher energy prices, and

Table 1.2 Three-Year Fiscal Plan Update – Changes from *Budget 2004*

($ millions)	2004/05	2005/06	2006/07
***Budget 2004* Fiscal Plan**	**100**	**275**	**300**
Revenue changes:			
Taxation	706	529	321
Natural resources	428	639	802
Other taxpayer-supported revenue	41	259	182
Federal transfers	680	679	385
Commercial Crown corporation operating results	381	95	64
Total revenue changes before revenue measures	**2,236**	**2,201**	**1,754**
Less: revenue measures	(150)	(484)	(496)
Total revenue changes after tax measures	**2,086**	**1,717**	**1,258**
Less expense increases (decreases):			
CRF increases:			
Ministry of Health Services	-	475	536
Ministries of Education and Advanced Education	-	107	17
Ministries of Human Resources and Children and Family Development	-	96	97
Ministry of Community, Aboriginal and Women's Services	-	88	51
Ministry of Small Business and Economic Development	-	281	55
Ministries of Attorney General and Public Safety and Solicitor General	11	60	79
Ministry of Sustainable Resource Management	(74)	126	95
Other spending changes	109	125	83
Distribution of BC Rail Investment Partnership (of which $200 million is transferred to the BC Transportation Financing Authority)	391	-	-
Transfer to BC Transportation Financing Authority for debt reduction	550	-	-
One-time spending initiatives	452	-	-
Subtotal	**1,439**	**1,358**	**1,013**
Reduction in MOPD debt servicing costs	(109)	(125)	(138)
Net increase in CRF spending	**1,330**	**1,233**	**875**
Taxpayer-supported Crown corporation net spending changes	(59)	(28)	(168)
Transfer to BC Transportation Financing Authority	(750)	-	-
SUCH sector - net spending increase	25	167	201
Total expense increases	**546**	**1,372**	**908**
Forecast allowance increases	(200)	(400)	(450)
Total changes	**1,340**	**(55)**	**(100)**
***Budget 2005* Updated Fiscal Plan**	**1,440**	**220**	**200**

increased federal contributions. In 2006/07, this increase falls to $1.8 billion reflecting the end of interim federal equalization allocations, combined with declines in other revenue sources such as property transfer taxes, Crown corporation net incomes, and forestry revenues. After deducting the impact of revenue measures – the change in revenues becomes $2.1 billion in 2004/05, $1.7 billion in 2005/06 and $1.3 billion in 2006/07 (as shown in Table 1.2).

The revenue forecast is described starting on page 34. The revenue forecast also includes the effect of revenue measures totaling $484 million in 2005/06 and $496 million in 2006/07. These revenue policy changes are detailed in Part 2: Revenue Measures.

Chart 1.3 Revenue and spending trends

The higher levels of government revenues have provided the basis for expanded service levels, lower taxes and lower direct government operating debt, while maintaining a balanced budget plan for 2005/06 to 2007/08. The available revenues have been allocated amongst:

- new spending commitments for health care, education, and priority initiatives for children, communities, safety, economic development, culture and the environment;
- tax reductions benefiting all British Columbians including those at lower income levels, and ensuring businesses remain competitive; and
- the surplus and forecast allowance, which if unspent, will help to reduce direct operating debt.

Table 1.3 Three-Year Fiscal Plan Update – Allocation of Available Revenues

($ millions)	2004/05	2005/06	2006/07
Available Revenues[1]	**2,436**	**2,476**	**2,054**
Allocations:			
Expense increases	546	1,372	908
Revenue measures	150	484	496
Surplus and Forecast Allowance (available for operating debt reduction and other pressures)	1,740	620	650
Total allocations	**2,436**	**2,476**	**2,054**

[1] Available revenues include the *Budget 2004* surplus plus subsequent revenue increases before deduction of any revenue measures.

Table 1.3 summarizes the allocation of available revenues to increased services, to revenue measures, and to the surplus and forecast allowance, which go towards debt reduction.

Budget 2005 includes a capital plan for ministries and taxpayer-supported agencies that is substantially higher than last year's plan, and funds an additional $1 billion in 2005/06 and $881 million in 2006/07. This reflects increased capital spending to address government priorities in the K–12, post-secondary and health sectors along with transportation projects. More information on the capital spending forecast is found on page 42.

The fiscal plan is based on the Ministry of Finance's economic forecast that projects economic growth of 3.1 per cent for 2005 and 3.0 per cent in 2006 and 2007, slightly less than the independent Economic Forecast Council average. Full details of the economic forecast are found in Part 3: British Columbia Economic Review and Outlook.

The spending plan reflects the allocation of available financial resources to meet government priorities, subsequent to the annual review of ministry spending plans. Overall spending is forecast to increase by 4.7 per cent between 2004/05 and 2005/06, as funding is increased in most ministry budgets. Further information on the spending forecast, including the CRF spending plan, follows this introduction.

The very large and unpredicted revenue increase in 2004/05 provides a near-record surplus for that year, one that is not expected to extend into the future since revenue growth rates slow sharply after the rapid increase of 2004/05. Government plans to allocate $452 million from the 2004/05 surplus to one-time or accelerated spending initiatives, matching the one-time nature of some of the 2004/05 revenues. $550 million is transferred to the BC Transportation Financing Authority (BCTFA). Adding this to the $200 million of cash proceeds from the BC Rail Investment Partnership, BCTFA receives a total of $750 million enabling it to pay down some of its debt. *Supplementary Estimates* will be introduced in the Legislature to authorize the one-time initiatives and the $550 million transfer to the BCTFA.

Further information on *Supplementary Estimates*, the updated 2004/05 forecast, and changes since the February 17, 2004 budget are provided in Table 1.6 and in Part 4: 2004/05 Updated Financial Forecast (third *Quarterly Report*).

The main risks to the government fiscal plan include economic fluctuations such as exchange rate or sudden commodity price changes, and potential changes to federal transfer allocations on the revenue side, as well as wage and service demand pressures on the expenditure side. These and other risks are more fully described starting on page 49.

A $300 million forecast allowance is retained in 2004/05 to protect the bottom line against unanticipated revenue shortfalls or spending pressures that may arise before the end of the fiscal year. The fiscal plan also includes forecast allowances of $400 million in 2005/06, $450 million in 2006/07, and $550 million in 2007/08 to protect the fiscal plan from revenue risks such as sudden changes in energy prices and from spending pressures such as forest fires or future public sector wage settlements.

The three-year fiscal plan conforms to the standards set by the accounting profession for senior governments in Canada referred to as generally accepted accounting principles or "GAAP". As with *Budget 2004*, this budget integrates financial forecasts for schools, universities, colleges and health authorities/societies (the SUCH sector) into government's revenue, spending and balance sheet projections.

Table 1.4 Revenue by Source[1]

($ millions)	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxation revenue					
Personal income	5,005	5,055	5,202	5,509	5,828
Corporate income	893	1,256	1,075	1,080	1,096
Social service	4,156	4,066	4,113	4,319	4,531
Fuel	891	895	915	945	976
Tobacco	676	686	686	686	686
Property	1,655	1,643	1,706	1,781	1,851
Property transfer	432	600	460	410	420
Other	477	540	535	533	545
	14,185	14,741	14,692	15,263	15,933
Natural resource revenue					
Natural gas royalties	1,213	1,451	1,555	1,684	1,589
Columbia River Treaty	215	255	250	225	215
Other energy and minerals	603	548	713	703	672
Forests	999	1,305	1,080	1,069	1,068
Water and other resources	402	301	320	379	380
	3,432	3,860	3,918	4,060	3,924
Other revenue					
Medical Services Plan premiums	1,398	1,458	1,427	1,422	1,429
Post secondary education fees	763	829	924	985	1,060
Other healthcare-related fees	195	190	176	175	175
Motor vehicle licences and permits	370	380	389	399	408
Other fees and licences	852	816	774	733	699
Investment earnings	889	782	842	863	902
Sales of goods and services	681	688	680	705	721
Miscellaneous	1,309	1,355	1,432	1,411	1,442
	6,457	6,498	6,644	6,693	6,836
Contributions from the federal government					
Health and social transfers[2]	3,372	3,438	4,144	4,509	4,803
Equalization	402	980	590	-	-
Other cost-shared agreements	720	756	758	720	618
	4,494	5,174	5,492	5,229	5,421
Taxpayer-supported programs and agencies	**28,568**	**30,273**	**30,746**	**31,245**	**32,114**
Commercial Crown corporation net income					
BC Hydro (before regulatory transfers)	388	310	395	368	177
Liquor Distribution Branch	760	768	779	794	808
BC Lotteries (net of payments to federal government)	842	842	892	942	1,021
BC Rail[3]	29	167	76	20	5
ICBC[4]	52	360	176	111	98
Other	1	6	12	17	21
	2,072	**2,453**	**2,330**	**2,252**	**2,130**
Total revenue	**30,640**	**32,726**	**33,076**	**33,497**	**34,244**

[1] The 2004/05 budget estimate and updated forecast have been restated to reflect government's current organization and accounting policies.

[2] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

[3] BC Rail's fiscal plan projections represent their earnings during government's fiscal year. On BC Rail's fiscal year basis (December), the outlook is – 2004 (budget): $211 million; 2004 (forecast): $195 million; 2005: $76 million; 2006: $20 million; 2007 $5 million.

[4] ICBC's fiscal plan projections represent their earnings during government's fiscal year. On ICBC's fiscal year basis (December), the outlook is – 2004 (budget): $52 million; 2004 (forecast): $390 million; 2005: $176 million; 2006: $111 million; 2007 $98 million.

Table 1.5 Expense by Ministry, Program and Agency[1]

($ millions)	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Advanced Education	1,900	1,900	1,956	2,020	2,096
Education	4,921	4,921	5,060	5,151	5,174
Health Services	10,690	10,690	11,392	11,796	12,090
Subtotal	17,511	17,511	18,408	18,967	19,360
Office of the Premier	11	11	11	11	11
Agriculture, Food and Fisheries	43	43	57	57	57
Attorney General	469	465	475	487	490
Children and Family Development	1,498	1,498	1,577	1,611	1,635
Community, Aboriginal and Women's Services	369	369	470	445	429
Energy and Mines	63	63	77	76	74
Finance	76	76	78	78	78
Forests	524	635	645	685	711
Human Resources	1,284	1,284	1,367	1,369	1,397
Management Services	199	199	202	196	179
Provincial Revenue	42	40	42	42	42
Public Safety and Solicitor General	501	516	545	549	552
Skills Development and Labour	18	18	19	19	19
Small Business and Economic Development	140	140	521	201	157
Sustainable Resource Management	275	201	239	229	195
Transportation	804	804	805	805	806
Water, Land and Air Protection	143	143	152	152	152
Subtotal	6,459	6,505	7,282	7,012	6,984
Total ministries and Office of the Premier	**23,970**	**24,016**	**25,690**	**25,979**	**26,344**
Legislation	46	46	51	47	47
Officers of the Legislature	27	27	46	21	21
BC Family Bonus	59	59	39	32	32
Management of Public Funds and Debt	800	691	730	747	771
Contingencies (All Ministries) and New Programs	191	191	270	270	310
Other Appropriations	12	12	10	10	10
Subtotal	25,105	25,042	26,836	27,106	27,535
BC Rail investment partnership	-	391	-	-	-
Supplementary Estimates	-	1,002	-	-	-
Consolidated revenue fund expense	**25,105**	**26,435**	**26,836**	**27,106**	**27,535**
Less: grants to agencies and other internal transfers					
Taxpayer-supported Crown corporations and agencies	(735)	(1,629)	(927)	(895)	(863)
School districts	(4,267)	(4,322)	(4,394)	(4,448)	(4,454)
Universities	(818)	(857)	(912)	(927)	(954)
Colleges, university colleges, and institutes	(778)	(800)	(821)	(807)	(832)
Health authorities and hospital societies	(6,912)	(7,164)	(7,414)	(7,561)	(7,701)
CFD governance authorities	-	(1)	(264)	(589)	(1,139)
Add: Expenses recovered from external entities	1,632	1,619	1,695	1,727	1,694
	13,227	13,281	13,799	13,606	13,286
Taxpayer-supported Crown corporations and agencies	**1,904**	**2,002**	**2,073**	**2,000**	**2,156**
SUCH sector and regional authorities:					
School districts	4,451	4,561	4,696	4,733	4,744
Universities	1,936	2,067	2,221	2,342	2,451
Colleges, university colleges, and institutes	1,324	1,355	1,402	1,392	1,422
Health authorities and hospital societies[3]	7,598	7,719	8,001	8,185	8,296
CFD governance authorities	-	1	264	589	1,139
	15,309	15,703	16,584	17,241	18,052
Total taxpayer-supported expense	**30,440**	**30,986**	**32,456**	**32,847**	**33,494**

[1] The 2004/05 budget estimate and updated forecast have been restated to reflect government's current organization and accounting policies.

[2] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

[3] Excludes inter-entity transactions between health authorities and hospital societies.

Table 1.6 Planned 2004/05 *Supplementary Estimates*

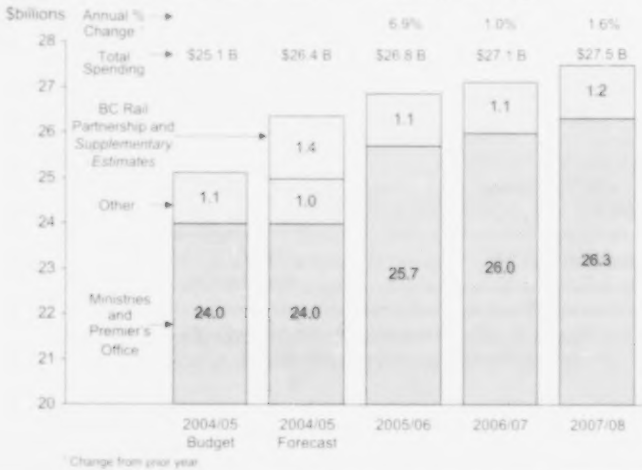
	($ millions)
Advanced Education	
Research funding contribution	10
Agriculture, Food and Fisheries	
BSE and avian flu response	12
Industry development initiatives	16
Community, Aboriginal and Women's Services	
Canada/BC Infrastructure Program	26
North East BC Infrastructure	40
Energy and Mines	
Geoscience BC	25
Forests	
Forestry revitalization, reforestation	112
Human Resources	
Costs resulting from support rate increase for persons with disabilities	10
Public Safety and Solicitor General	
Priority police equipment	3
Small Business and Economic Development	
Arts & sports	40
Community Development Initiative, Western Economic Partnership Agreement	68
2010 Olympics venues acceleration	40
Tourism initiatives	14
Sustainable Resource Management	
Contaminated sites, water remissions	28
Transportation	
Reduction in BCTFA debt requirements	550
Water, Land and Air Protection	
Biodiversity initiatives	8
Total	**1,002**

Consolidated Revenue Fund Spending

Consolidated Revenue Fund (CRF) spending will increase from an initial estimate of $25.1 billion in 2004/05 to $27.5 billion by 2007/08 – a 9.7 per cent increase.

This budget builds on *Budget 2004's* commitment to healthcare and education as government's main funding priority areas, while taking advantage of the new choices provided by increased revenues to enhance commitments to provide additional support to BC's communities, children, increased safety, economic development and protection of the environment.

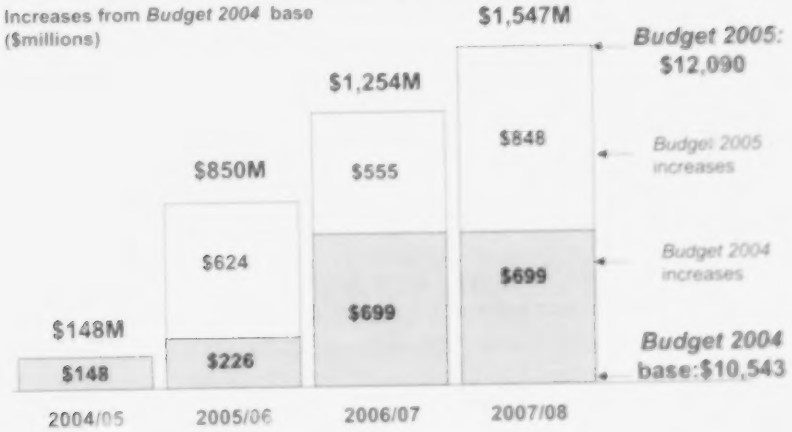
Chart 1.4 Consolidated Revenue Fund spending [1]



Health Care

Budget 2005 invests growing provincial revenues in British Columbia's funding priorities of health care and education. Over the next three years health care will receive the largest share of funding increases.

Chart 1.5 Ministry of Health Services budget increases



By 2007/08, the Health Services budget will increase by over 14.7 per cent or $1.5 billion since *Budget 2004* was delivered on February 17, 2004. This is a result of additional new provincial funding and government's continued commitment to reinvest every new federal dollar from the First Ministers' Accord on Health Care Renewal funding and the new federal health funding agreement.

In 2004/05, *Supplementary Estimates* provided for new federal health care funding supplemental to the 2003 Health Accord and to introduce the new Public Health and Immunization Trust. These new funds have been built into *Budget 2005* and will support home care and palliative care, critical care services, health human resources, enhanced public health capacity and new childhood and adolescent vaccination programs such as influenza, chicken pox and meningococcal.

In September 2004, the provinces, territories and federal government agreed to a 10-year plan to strengthen health care at the First Ministers meeting held in Ottawa. British Columbia's share of new federal funding is expected to be $5.4 billion over the next ten years. The First Ministers also agreed that the top priority for these funds is to improve access to care and reduce wait times where they are longer than medically acceptable.

Although each province will be expected to identify its own spending priorities across the continuum of health services provided to its citizens, First Ministers agreed that cancer treatment, heart surgeries, diagnostic imaging, joint replacement and sight restoration services are important priority areas to be considered (for additional information on health care spending see the topic box on the First Ministers' Agreement on Health Care on page 65).

Table 1.7 Continued Commitment to Health Care Increases

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
Lifts in *Budget 2004*	-	226	699	699	1,624
Post *Budget 2004*:					
Additional 2004/05 Health Accord funding	148	148	18	130	444
Federal funding adjustment – population and equipment	-	17	(4)	(1)	12
Abbotsford Regional Hospital and Cancer Centre	-	-	-	3	3
Net health changes 2004	148	391	713	831	2,083
Budget 2005:					
New 10 year federal health agreement	-	444	523	544	1,511
New provincial funding	-	15	18	172	205
Total changes	**148**	**850**	**1,254**	**1,547**	**3,799**
Per cent increase from *Budget 2004* base	1.4%	8.1%	11.9%	14.7%	

While the federal government has not yet passed legislation for the new ten year health care funding, *Budget 2005* includes the new funding due to the advanced state of the federal commitment. *Budget 2005* maintains the provincial promise to reinvest every new federal health dollar in additional health care services. When added to *Budget 2004* and *Budget 2005's* significant provincially funded increases this results in an annual increase in health care spending of over $1.5 billion from 2004/05 (*Budget 2004*) to 2007/08.

The $1.5 billion increase from 2004/05 to 2007/08 has been allocated to the following major program areas:

Regional Health Sector ($1,044 million) for services such as:

- Effective health promotion, disease prevention and other public health services;
- Enhancing primary care;
- Cancer treatment, heart surgeries, diagnostic imaging, joint replacement, sight restoration services, renal care and palliative care;
- Delivering effective community and home-based services;
- Increased options for frail seniors in the assisted living and residential care sector;
- Increasing the supply and training of health care professionals; and
- Patient safety initiatives.

Medical Services Plan ($120 million):

- To provide for increased volume related to population growth and aging.

Pharmacare ($254 million):

- For new drugs and anticipated volume and price increases for prescription drugs.

Debt Service and Amortization ($64 million):

- To support new provincial capital investment of $735 million over three years in the health sector.

Emergency Health Services (BC Ambulance) ($47 million):

- Additional capacity for emergency transport services.

Examples of spending initiatives that will increase access and services for the public, include:

- $10 million over three years for screening mammography;
- $14 million over three years for children and youth with special needs to provide additional diagnosis and assessments services for children who have developmental behavioural conditions including fetal alcohol syndrome disorder;
- $70 million is the Ministry of Health Services portion of the $76 million for Early Childhood Screening initiatives targeted at children below the age of six. Funding is provided for dental screening and services, hearing screening (*A Sound Start*), and vision screening;
- $77 million over 3 years for recruitment, training and retention of nurses;
- $100 million over three years for public health initiatives including ActNow BC, which promotes healthy lifestyles including physical activity, healthy eating, living tobacco free and healthy choices during pregnancy; and expanding public health capacity including prevention activities such as immunization programs, drinking water and food safety, and health emergency preparedness;
- $100 million budgeted in 2007/08 for the Michael Smith Foundation For Health Research for health system research including strategies to attract and keep health researchers and trainees in BC and to leverage research funding from other sources; and
- $125 million over three years for life supporting drugs and services for cancer, cardiac, renal and transplant patients.

Education: K-12

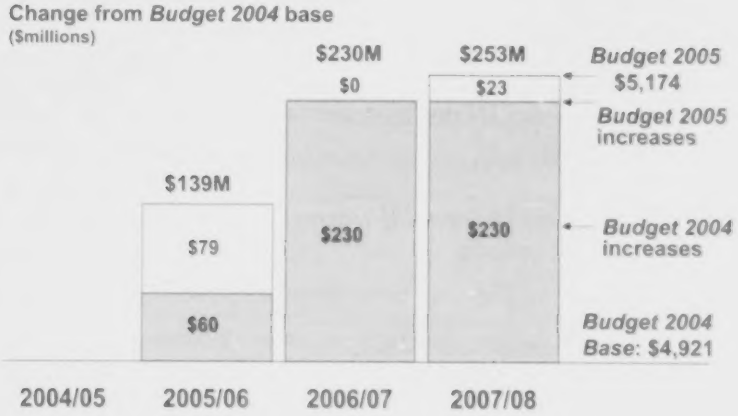
Budget 2005 builds on government's ongoing commitment to education. Annual funding for K–12 will increase $253 million by 2007/08 compared to 2004/05 funding in *Budget 2004*. This represents 5.1 per cent growth in annual funding by 2007/08.

Per pupil funding for 2005/06 is estimated at $7,079 per student, a 4.8 per cent increase over 2004/05. This represents a $150 million increase in funding for the 2005/06 school year. Per pupil funding continues to grow to support student achievement despite declining enrolment projections.

This increased funding for K–12 students will be linked to locally developed plans that will ensure every student has access to:

- school libraries and quality learning resources;
- music and arts programs; and
- improved services to support every special needs student.

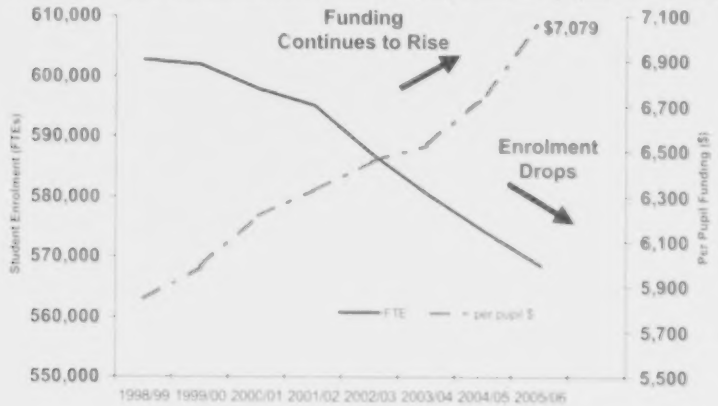
Chart 1.6 K–12 budget increases



Further information on funding and services for children and youth with special needs can be found in the topic box on page 66.

In addition to increased per pupil funding, *Budget 2005* provides funding for a $1.5 billion seismic mitigation program to upgrade all at-risk schools within 15 years. A long-term plan for the program will be established with school boards and the Ministry of Education.

Chart 1.7 Student enrolment and per pupil funding (public schools)



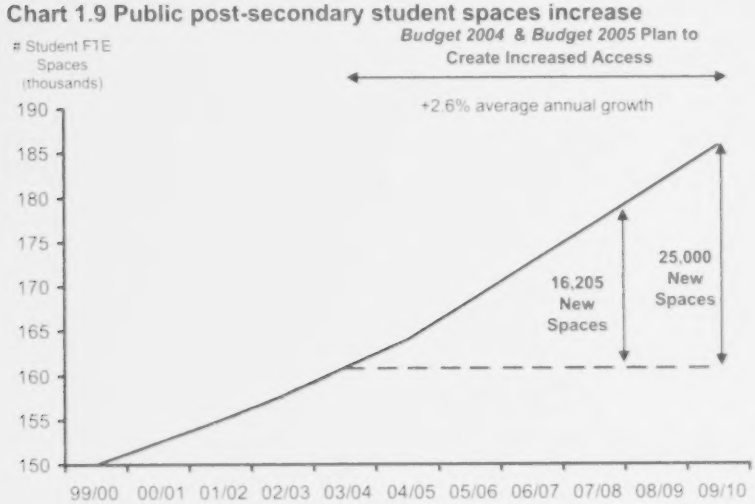
Post-Secondary Education

Budget 2005 builds on government's ongoing commitment to increasing access to post-secondary education. Annual funding for post-secondary education will increase $196 million by 2007/08 compared to 2004/05 funding in *Budget 2004*. This represents 10.3 per cent growth in annual funding by 2007/08.

Chart 1.8 Post-secondary education budget increases

In partnership with the post-secondary sector, 25,000 new student spaces will be created by 2010. This represents average seat growth of 2.6 per cent annually. By the end of 2007/08, there will be 16,205 new seats in the post-secondary system. Through *Budget 2005*, the province will fully fund its share of annual costs for these new spaces at an average of $9,200 per space.

Chart 1.9 Public post-secondary student spaces increase



In addition to fully funding its share of annual costs for seat growth, the province is also providing almost $800 million in capital funding for infrastructure to accommodate seat growth, replace existing infrastructure and facilitate research activities throughout the post-secondary system.

The province provides over $300 million annually in funding for loans to post-secondary students. As part of a comprehensive student financial assistance system, *Budget 2005* also provides over $450 million over three years in funding for loan reductions targeting funds towards students who are most in need, grants for students with disabilities, debt relief programs and a loan-forgiveness program that encourages doctors, nurses and other health professionals to practice in under-served regions.

Children

Budget 2005 invests growing provincial revenues to develop the capacity of families and communities to care for and protect vulnerable children and youth. Government will spend an additional $241 million by 2007/08 to enhance programs and services for children and their families.

Table 1.8 Enhancing Services to Children

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
Budget 2005:					
Children in care and Family Development	-	8	9	9	26
Increased access to childcare	-	4	1	-	5
Early childhood screening	3	21	25	27	76
Children and youth with special needs					-
– Assessments	-	3	5	6	14
– Reduced waitlists	-	11	14	17	42
– Services for school-aged children*	-	26	26	26	78
Total new spending	**3**	**73**	**80**	**85**	**241**

* Preliminary estimate.

Through various service transformation initiatives focussed on keeping children in their families safely, the number of children in care has been reduced by over 13 per cent (1,000) since April 2002. While these transformation initiatives, including providing support for out-of-care options, continue to produce good results, challenges remain to reduce the number of aboriginal children in care. An additional $26 million has been provided to continue to support prevention and out-of-care options to keep children safe within their families and communities.

An additional $5 million has been provided to cover the cost of making more families eligible for child care subsidies. Potential new federal funding for enhancing early learning and child care has not been included in *Budget 2005* due to the preliminary and tentative nature of the funding arrangement. Once the federal government confirms the new funding and details of the new agreement are known, a *Supplementary Estimate* will be presented to the Legislature to commit the new funding to child care. For additional information on anticipated new federal funding for early learning and child care, see the topic box on page 65.

Budget 2005 also provides $76 million over three years to implement an integrated strategy for infant and early childhood screening programs as one method for improving early childhood development. Programs will focus on newborn hearing screening (*A Sound Start*), dental screening for infants and preschoolers, and a population health-based case finding approach to identify preschool children with vision impairments. This strategy will involve service providers in the health, school and community social services sectors.

Budget 2005 provides an additional $134 million over the next three years to enhance programs and services for children and youth with special needs and their families, including $14 million for enhanced diagnostic and assessment services for children who have developmental behavioral conditions (including Fetal Alcohol Syndrome Disorder (FASD)), $42 million to provide new

intervention and support services for children affected by FASD for reducing waitlists in direct intervention services and key family support services, and $78 million for enhanced services to children and youth with special needs in the education system. For additional information on children and youth with special needs, see the topic box on page 66.

Communities

Budget 2005 invests growing provincial revenues in services and programs that support BC's communities. Communities benefit from the additional funding that *Budget 2005* provides to persons with disabilities, people who are homeless, and recent immigrants to increase their self-reliance and maximize involvement in their local communities, as well as from the expansion of local arts, literacy and cultural initiatives.

Table 1.9 Enhancing Services to Communities

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
Budget 2005:					
Income assistance caseload	-	8	24	46	78
Persons with disabilities	18	56	58	62	194
Adult community living services	-	22	28	41	91
Homelessness	8	15	8	17	48
Social housing	-	12	10	14	36
Family law funding	-	5	5	5	15
Traffic fine revenue sharing	32	29	17	17	95
Public library funding	-	3	4	5	12
Arts funding	25	3	3	3	34
Skilled Immigrant Accreditation	-	5	5	5	15
Total new spending	**83**	**158**	**162**	**215**	**618**

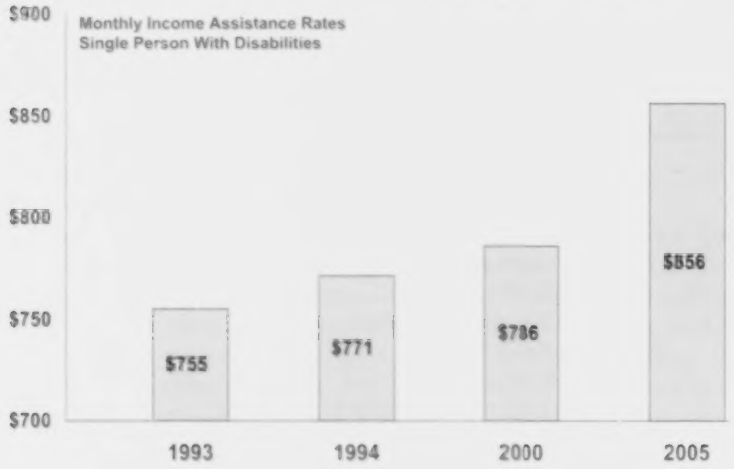
Budget 2005 invests in services that assist individuals and families in need. The Ministry of Human Resources budget includes an additional $113 million by 2007/08 to provide for changes to the caseload composition, a $70 monthly rate increase in support to persons with disabilities, and additional funding of $5 million annually for providing emergency shelter to people who are homeless.

Chart 1.10 Persons with disabilities – monthly rate second highest in Canada

Budget 2005 includes $78 million over the next three years to fund increased costs due to growth and changes in the composition of the income assistance caseload.

For the past three years, the Ministry of Human Resources has been focusing on programs and services designed to assist persons with disabilities to enhance their self-reliance. Effective December 22, 2004, income assistance rates for persons with disabilities were increased by $70 per month or 9 per cent for a single person with disabilities. This is the second highest support rate for persons with disabilities in Canada. *Budget 2005* provides $194 million to fund the cost of the rate increase.

Chart 1.11 Persons with disabilities – monthly rate increases



Income assistance rates for persons with disabilities were last increased in August 2000, when a general increase of 2 per cent was provided. Since the time of this rate increase, the cost of living has increased 7.4 per cent. For a single person with disabilities, the $70 per month increase is the largest support rate increase in the past 30 years and the largest percentage increase since 1981.

The number of adults with developmental disabilities accessing residential and day support services and their acuity of need are increasing as a result of demographic trends and advancing technologies. An additional $91 million has been provided in the Ministry of Children and Family Development over the next three years to manage this expected caseload growth.

Homelessness

Budget 2005 provides an additional $48 million by 2007/08 for emergency shelter programs, housing and support services for people who are homeless.

The Ministry of Human Resources will provide an additional $19 million through community organizations to provide year-round emergency shelter beds, food and other services in BC communities for people with basic safety, comfort, nutrition and hygiene needs. An additional $29 million is also being provided through other ministries for transition and supportive housing

projects that focus on moving people into stable housing arrangements – the Ministry of Community, Aboriginal and Women's Services will subsidize, through BC Housing Management Commission (BCHMC), the development of the projects while related health and other support services will be provided by health authorities and the ministries of Human Resources and Children and Family Development. For additional information on government's commitment to address homelessness, see the topic box on page 68.

Budget 2005 includes $31 million in funding for BCHMC to provide operating subsidies for independent living spaces provided through Independent Living BC. BCHMC will also receive an additional $5 million, which will leverage additional funding from federal programs to upgrade public housing.

The Ministry of Attorney General has piloted several successful family law initiatives designed to balance the needs of citizens with the capacity of the legal system. *Budget 2005* provides an additional $15 million to ensure these programs continue for the next three years. The funding enhances current services where domestic violence is involved; the Family Duty Counsel programs (Provincial and Supreme Court) that assist self-represented litigants in family matters; and, the Supreme Court Family referral program that assists unrepresented parties who must access the Supreme Court in complex matters to resolve a family justice matter.

Budget 2005 provides for 100 per cent of net traffic fine revenue to be returned to municipalities beginning in 2004/05. Seventy municipalities will receive more money for community policing, crime prevention and other initiatives to help make communities safer.

Public libraries will benefit from $12 million in new funding, bringing broadband Internet access to every branch, operating a 24-hour virtual reference desk and setting up a one-card system to give the public access to books from any library in the province.

Budget 2005 provides $25 million in one-time funding to establish an Arts and Culture Endowment and Development Fund. The fund will leverage private sector support to build endowments for arts and culture organizations and assist with development and sustainability initiatives. The BC Arts Council will also receive an additional $3 million in annual funding.

The province is committing $5 million annually beginning in 2005/06 to assist skilled immigrants to obtain accreditation and employment that better matches their training, skills and experience.

Safety

Budget 2005 invests growing provincial revenues to help prevent violence against women, and to protect communities from crime.

Budget 2005 invests significant funding over the next three years to help keep communities safe. This investment includes $93 million in policing to provide 215 new RCMP positions to be allocated to detachment policing, first nations policing, major and serious crime investigations, cyber crime, an Indo-Canadian task force, and other policing initiatives.

Table 1.10 Commitment to Safety

($ millions)	2005/06	2006/07	2007/08	Total
Budget 2005:				
Policing strategy (215 additional RCMP officers)	35	42	45	122
Corrections (workload and safety) and Attorney General capacity	9	14	16	39
Personal safety for women	13	12	12	37
Total changes	**57**	**68**	**73**	**198**

This increased level of policing is anticipated to create additional demands on the legal system; this will be addressed by adding $25 million to the Ministry of Attorney General for the processing of new cases and $4 million to the Ministry of Public Safety and Solicitor General for the related pressures in the correction system. Funding will provide additional capacity in the system by adding prosecutors, sheriffs, and corrections related costs over the next three years.

The Corrections Branch houses persons sentenced or remanded into custody until trial. Additional funding of $32 million over three years has been allocated to address trends in inmate population and to enhance safety in both the community corrections programs and the province's correctional facilities. $7 million over three years has been allocated to the Ministry of Attorney General to accommodate the impact of additional police hiring on the justice system.

Budget 2005 provides an additional $37 million to increase personal safety for women and girls through increased funding for transition house services, outreach programs, support services for traumatized children, additional counseling and initiatives to prevent violence.

Economic Development

Budget 2005 includes significant initiatives targeting economic development throughout the province.

Agriculture and Aquaculture Initiatives

Budget 2005 provides $49 million for initiatives aimed at enhancing the province's agricultural and aquaculture industries, and protecting food safety:

- $27 million for assistance to producers as well as enhanced surveillance and testing, as part of the provincial response to BSE and avian flu;
- $6 million for fisheries initiatives including inspection, monitoring and improvements in aquatic animal health; and
- $16 million for other initiatives including crop insurance funding, research, innovation and increasing the competitiveness of the BC food industry.

Table 1.11 Economic Development Initiatives

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
Agriculture and aquaculture	41	4	2	2	49
Forestry					
– Beetle response and reforestation	12	31	7	51	101
– Forestry revitalization trust	50	-	-	-	50
– Timber re-allocation compensation	50	-	-	-	50
– Filmon response and fuel management	7	20	12	12	51
– Rural recreation access	4	10	-	-	14
Oil & Gas, Mining					
– Heartlands oil and gas roads	18	32	-	-	50
– Mining plan, data acquisition	2	6	5	5	18
– Geosciences for minerals, oil and gas	25	-	-	-	25
– Oil and gas initiatives	-	7	6	4	17
Infrastructure					
– Municipal infrastructure	92	5	-	-	97
– Regional sports facilities	-	50	-	-	50
– Post-secondary sports training facilities	-	20	27	13	60
Tourism	14	24	22	21	81
Peace River, North East BC	40	8	8	8	64
Total economic development initiatives [1]	**355**	**217**	**89**	**116**	**777**

[1] Includes $21 million funded through the Contingencies Vote in 2004/05. The remaining $334 million will be funded through *Supplementary Estimates*.

Forestry

Budget 2005 includes $266 million in funding for initiatives to address the economic impacts of the mountain pine beetle epidemic and forest fires, while providing new opportunities to industry and communities.

- $16 million for incremental manufacturing and economic diversification planning in communities impacted by the mountain pine beetle epidemic.
- $85 million for a major reforestation program targeting areas of the province impacted by the mountain pine beetle epidemic and forest fires.

  These initiatives build on government's commitment, through the $135 million Northern Development Initiative Trust, to support regional investment for a variety of purposes, including forestry and pine beetle recovery.

  The province is also actively pursuing federal funding for these forestry initiatives in recognition of the potential impact of the mountain pine beetle and forest fires on communities and industry, the need for adjustments in this sector and the continuing contribution of a sustainable provincial forest to Canada's climate change initiatives. Any federal funding received will be incremental to the $101 million provincial commitment for these initiatives.
- $50 million for the province's commitment to increase the Forestry Revitalization Trust to $125 million, to help workers and contractors pursue new opportunities and participate in building a more competitive forest industry.

- $50 million toward compensation for improvements by companies impacted by timber re-allocation as part of the Forestry Revitalization Plan, increasing the total compensation for companies to $250 million. The reallocation of 20 per cent of the long-term replaceable logging rights held by major licensees is expected to be complete by March 2006.
- $51 million for fuel management and the commitment to fully implement the recommendations of the Filmon Report. This includes the addition of two air tankers, hiring seven additional unit crews and funding for Community Wildfire Protection Plans.
- $14 million to replace bridges providing access to remote communities, including the Kikomun Bridge near Elko, on the Caven Creek forest service road.

Oil and Gas, Mining

Budget 2005 provides $110 million for initiatives to facilitate exploration and continued development of the provincial oil and gas and mining sectors.

- $50 million investment in the heartlands oil and gas road rehabilitation strategy, to upgrade roads and lengthen the winter drilling season. This investment will be funded through the transportation investment plan.
- $18 million to implement the mining plan, including measures to improve mine safety and safety of workers and improved services to the mining sector.
- $25 million for a new geoscience centre to, in partnership with industry, develop and publish geoscience data and enhance exploration in the mining and oil and gas sectors.
- $17 million for additional oil and gas initiatives, including community and stakeholder engagement.

Infrastructure

Budget 2005 provides $207 million in new funding for municipal and regional infrastructure across the province:

- $97 million for municipal infrastructure projects through enhancement of programs in the Ministry of Community, Aboriginal and Women's Services, including the new BC Community Water Improvement Program targeting projects to improve drinking water and waste management; and the Community Development Initiative in the Ministry of Small Business and Economic Development.
- $50 million for major regional sports facilities funded through the Ministry of Small Business and Economic Development.
- $60 million for major post-secondary sports training facilities funded through the Ministry of Small Business and Economic Development.

Combined with the $206 million of provincial funding to be provided through existing infrastructure programs from 2004/05 to 2007/08, provincial funding

for municipal and regional infrastructure in *Budget 2005* will total $413 million. This provincial funding will in turn leverage significant additional investments in municipal and regional infrastructure from other levels of government and the private sector.

Tourism

Budget 2005 provides $67 million over the three years for Tourism BC, building toward the objective of doubling the tourism industry by 2015. This funding, combined with revenues allocated from the provincial hotel room tax, will allow Tourism BC to double its marketing budget to $50 million. An additional $14 million is allocated in 2004/05 for tourism initiatives to be announced at a later date.

Peace River Regional District Memorandum of Understanding

Budget 2005 provides $24 million in new funding for a potential new memorandum of understanding (MOU) with the Peace River Regional District (PRRD). The province has budgeted $20 million annually from 2005/06 to 2007/08 for grants to the PRRD under the MOU, an increase of $8 million per year. The province has also budgeted for a one-time $40 million grant in 2004/05 to address historical infrastructure requirements in North East BC.

In addition to the initiatives shown in Table 1.11, government's fiscal plan includes a further $150 million set aside for future economic development initiatives. Further details will be provided as soon as plans are sufficiently advanced.

2010 Olympic and Paralympic Winter Games (2010 Olympics)

The province has committed $600 million toward the 2010 Olympics. This includes funding for venues, an endowment to support the ongoing operation of certain venues, medical and security costs, legacies for sports, First Nations and municipalities, and a contingency allocation of $140 million to protect against unbudgeted costs.

Table 1.12 2010 Olympics Funding

($ millions)	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Venues	51	43	102	12	18	226
Venues endowment	55	-	-	-	-	55
Medical and security	-	-	2	2	5	9
First Nations and municipal legacies	3	-	18	13	4	38
Total contribution to provincial commitment	**109**	**43**	**122**	**27**	**27**	**328**
Olympic contingency allocations [1]	-	-	-	-	40	

[1] Notionally allocated within the Contingencies Vote.

As a prudent planning assumption the province has allocated $40 million of the Olympic contingency to the government contingencies vote in 2007/08, for unforeseen expenditures associated with the Olympic funding envelope. Treasury Board maintains control over access to the Olympic contingency funding.

Through *Budget 2005* the province will have funded $328 million of its $600 million commitment to the 2010 Olympics by 2007/08.

Further details on the provincial commitment to the 2010 Olympics can be found in the *British Columbia Olympic and Paralympic Winter Games Secretariat Progress Report* at:

www.sbed.gov.bc.ca/2010secretariat/

Vancouver Convention Centre Expansion Project (VCCEP)

The VCCEP consists of an expansion to the existing Vancouver Convention and Exhibition Centre, as well as an upgrade and linkage to the existing facility. Total funding by the province to VCCEP will total $313 million by 2007/08:

- $230 million to fully fund the province's commitment to the project, including $7.5 million subject to matching funds from the federal government.
- $83 million of Tourism Vancouver's $90 million funding commitment. The province is contributing these funds to the project, and will be reimbursed through Tourism Vancouver's own source revenues over time.

Further information on the VCCEP can be found on the VCCEP Ltd. website at:

www.vccep.bc.ca

Table 1.13 VCCEP Funding

($ millions)	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Funding Sources:						
Provincial contribution	67	62	70	31	-	230
Contribution funded on behalf of Tourism Vancouver	-	9	19	30	25	83
Total funding by province – Ministry of Small Business and Economic Development	**67**	**71**	**89**	**61**	**25**	**313**

Transportation Investment Plan

Budget 2005 updates and builds on the three-year transportation investment plan. The plan continues to be based on the following principles:

- the province will dedicate revenue or funding sources to finance its contributions;
- federal cost-sharing will be secured on all eligible projects and programs;
- additional transportation investment will be leveraged through partnerships with private partners; and
- provincial spending on new transportation investments will not increase the taxpayer-supported debt of the BC Transportation Financing Authority (BCTFA) above $3.4 billion.

The updated transportation plan provides:

- $2 billion of provincial investment in transportation infrastructure between 2005/06 and 2007/08; and
- $1.3 billion of investment leveraged through federal cost-sharing and partnerships with private partners, local governments and other agencies.

The province plans to commit $550 million of new funding to the transportation investment plan in 2004/05 through a *Supplementary Estimate*. This funding will flow to the BCTFA, offsetting $550 million of debt requirements to help ensure the BCTFA stays within its debt cap of $5.4 billion through 2007/08. Further details on the transportation investment plan can be found in the topic box on page 58.

Environment

Budget 2005 provides $150 million for initiatives aimed at environmental protection and land use certainty to facilitate sustainable economic development as follows:

- $16 million to increase the number of park rangers and conservation officers, as well as to provide seasonal employment opportunities for youth and training for potential future employment opportunities in the field of environmental management through the BC Conservation Corps.
- $91 million for the investigation and remediation of contaminated sites on Crown land.
- $8 million to implement the *Drinking Water Protection Act*, including research into the protection of surface and ground water and contaminated sites.
- $5 million to increase the capacity of the Environmental Assessment Office to address environmental assessments throughout the province.
- $30 million for cross-government land use planning activities including completion and implementation of Land and Resource Management Plans. This will result in increased certainty for communities, First Nations and industry by confirming environmental, economic and cultural objectives on provincial lands.

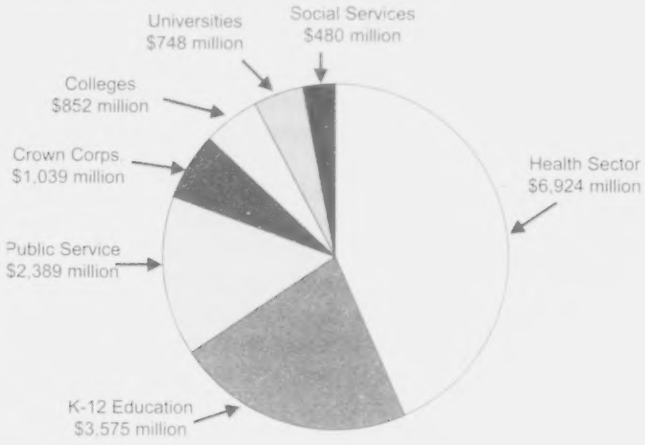
Table 1.14 Environment

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
BC Conservation Corps and park services	-	5	5	6	16
Investigation and remediation of contaminated sites	25	21	22	23	91
Drinking water action plan	-	2	3	3	8
Environmental Assessment Office capacity	-	1	2	2	5
Land-use planning	2	12	8	8	30
Total environment initiatives	**27**	**41**	**40**	**42**	**150**

Public Sector Compensation

The current compensation mandate that has been in place since January 2002 will remain unchanged until March 31, 2006. Approximately 70 per cent of all public sector employees (measured in full time equivalent terms) covering 68 agreements have agreements in place under the current 0-0-0 mandate.

Chart 1.12 Public sector compensation

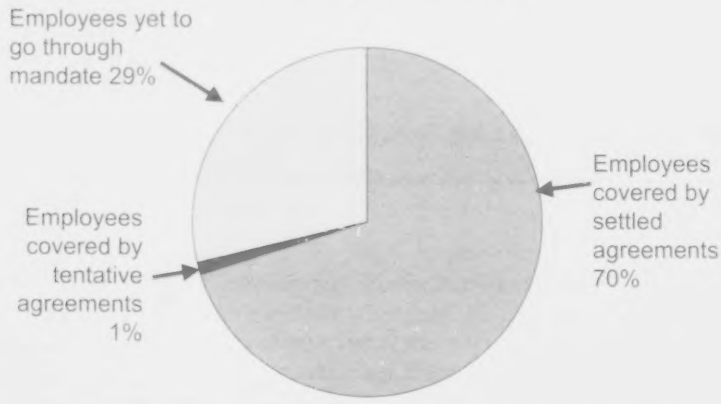


The current compensation mandate provides 'net-zero' compensation increases. Accordingly, employers and their unions are free to negotiate changes in wages or benefits as long as the total compensation of the bargaining unit remains the same. The mandate also allows employers to address demonstrable skills shortages with targeted labour market adjustment increases, however the government has not provided incremental funding to employers for these increases.

The current mandate recognizes that BC public sector wages and benefits continue to be among the highest in the country. This mandate is both realistic and reflective of labour market conditions and consistent with the province's desire to ensure BC retains the workers and professionals needed to deliver quality health care and other services.

The Minister of Finance, as Chair of the Public Sector Employers' Council, is working with public sector employers to create a new bargaining mandate that will succeed the current mandate and will be effective April 1, 2006. That mandate will continue to balance a number of priorities including the need to recruit and retain employees while allowing flexibility to innovate and improve services to British Columbians. Any compensation increase must be sustainable and affordable for taxpayers over the long-term. As the next mandate is still under development, no compensation increase has been assumed in this fiscal plan.

Chart 1.13 Status of the January 2002 mandate


Employees yet to go through mandate 29%
Employees covered by settled agreements 70%
Employees covered by tentative agreements 1%

With an annual compensation bill of about $16 billion including commercial Crown corporations, an annual 1 per cent increase in each of 2006/07 and 2007/08 and covering the entire public sector would increase costs by $160 million in 2006/07, and $320 million in 2007/08.

Taxpayer-supported Crown Corporation and Agency Expenses

Taxpayer-supported Crown corporations and agencies provide a number of services to the public. These agencies are primarily funded by the provincial government, but may also have outside sources of revenue. Some of the services provided by taxpayer-supported Crowns are highway construction (BC Transportation Financing Authority), property management (BC Buildings), property assessment, (B.C. Assessment Authority), social housing (BC Housing Management Commission), transit services (BC Transit), and legal services (Legal Services Society). Revenue and spending of taxpayer-supported Crown corporations are combined with CRF revenue and expenses in Tables 1.4 and 1.5. Revenues and expenses for individual taxpayer-supported Crown corporations are provided in Appendix Table A9.

Projected spending by taxpayer-supported Crown corporations for 2005/06 is $149 million higher than in the *Budget 2004* fiscal plan. The increase primarily reflects an $82 million grant by the BC Transportation Financing Authority (BCTFA) to the RAV project, additional spending by the BC Housing Management Commission on the maintenance of its housing units, the increased budget for Tourism BC, and the impact of including the Industry Training Authority in the fiscal plan.

The increased spending will be partially offset by a reduction in BCTFA's debt service costs (mainly due to lower debt as a result of the cash transfers in 2004/05) and the capitalization of certain costs that were previously anticipated to be expensed or financed by private sector parties. As well, Columbia Basin Trust's power project costs were reclassified with Columbia Power Corporation as a commercial enterprise.

SUCH Sector Expenses

The SUCH sector is comprised of the school districts; universities; colleges, university colleges, and institutes; and the health authorities and hospital societies. The government funds these organizations that in turn deliver education and health care services to British Columbians on the government's behalf.

For some of these organizations, such as the school districts and health authorities, government transfers and fees cover most of their operating costs. For other organizations, such as universities and colleges, their operating costs are only partially funded by government, with the remaining revenues raised from outside sources. Revenue and spending of the SUCH Sector entities are combined with CRF revenue and expenses in Tables 1.4 and 1.5. However, revenues and expenses for individual SUCH entities are detailed in Appendix Table A9.

SUCH sector expenses in excess of government transfers are forecast to be $2.8 billion in 2005/06. This amount is offset by the SUCH sector's own source revenue in determining the bottom line impact of the SUCH sector.

- Projected spending by school districts for 2005/06 is $206 million higher than the *Budget 2004* fiscal plan. The increase is primarily due to salaries for increased support levels to special needs students, costs associated with school generated funds and facilities maintenance. The increased spending will be partially offset by additional provincial contributions, school generated funds and other miscellaneous revenue.
- Projected spending by universities and colleges for 2005/06 is $258 million higher than the *Budget 2004* fiscal plan. Government's planned seat expansion will result in additional operating costs and higher amortization expense due to increased capital expenditures. Government has fully funded its share of these costs by providing an average of $9,200 per seat to these organizations.
- Projected spending by health authorities and hospital societies for 2005/06 is $399 million higher than the *Budget 2004* fiscal plan. The increase is primarily due to an increase in operating costs reflecting the increased provincial contributions and new federal health care funding.

Regional Authority Expenses

The Ministry of Children and Family Development continues the transition to establishing new governance authorities for adult community living services and child and family development services. Community Living BC is expected to assume full control over services to adults and children with developmental disabilities in the summer of 2005. The establishment of regional aboriginal authorities will occur in 2006/07, followed by regional authorities for non-aboriginal child and family services in 2007/08. The authorities will be considered established when they assume responsibility under legislation for the delivery of some or all services.

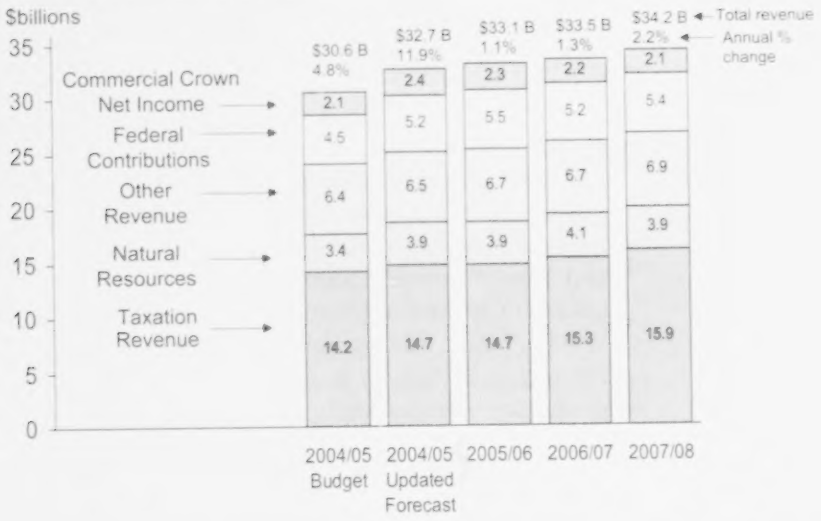
Revenue

Government revenue includes the combined revenues of the CRF, taxpayer-supported Crown corporations, the SUCH sector, and the net income of commercial Crown corporations. Following rapid growth of 11.9 per cent in 2004/05, revenue is forecast to total $33,076 million in 2005/06, up 1.1 per cent from the updated forecast for 2004/05 (see Table 1.4).

The 2005/06 forecast includes the effects of 4.7 per cent nominal GDP growth in 2005 and higher revenues from energy, coal and federal transfer payments. These improvements are partially offset by lower forest revenues and the effect of revenue measures announced since *Budget 2004*. In the next two years, revenue is forecast to grow 1.8 per cent per year on average as the economy posts an average 4.5 per cent annual nominal GDP growth.

The forecast includes BC's share of the additional federal health funding announced at the September, 2004 First Ministers' Meeting and the new equalization framework for 2004/05 and 2005/06 as of October 2004. The effect of these initiatives is that total contributions from the federal government grow 43.0 per cent and 6.1 per cent in 2004/05 and 2005/06 respectively, followed by a 4.8 per cent decline in 2006/07 and a 3.7 per cent increase in 2007/08.

Chart 1.14 Revenue forecast



Key assumptions and sensitivities relating to revenue are provided in Appendix Table A10.

Taxation Revenue

In 2005/06, revenue from taxation sources is forecast to decline $49 million annually mainly due to reduced revenues from corporate income and property transfer taxes, and the full year impact of tax measures that reduce revenue by $307 million over 2004/05. Over the next two years, revenue is forecast to increase an average 4.1 per cent annually reflecting expected growth in incomes and consumer spending.

- *Personal income tax* – increasing $147 million in 2005/06 over 2004/05, incorporating a tax reduction for low and moderate income taxpayers. In addition, 2004/05 revenue includes a one-time $69 million prior-year adjustment reflecting higher final information for the 2003 tax year than anticipated when the 2003/04 books were closed. Revenue averages 5.8 per cent annual growth over the next two years based on the Ministry of Finance personal and labour income forecast.

- *Corporate income tax* – decreasing $181 million in 2005/06 mainly due to a one-time $168 million payment for the 2003 tax year in 2004/05 as well as *Budget 2005* tax measures that reduce revenue by $40 million in 2005/06. See Part 2 for more details regarding the competitiveness measures introduced in *Budget 2005*.

- *Social service tax* – increasing 1.2 per cent in 2005/06 reflecting growth in all major categories of expenditure, partially offset by the full-year impact of the reduction in the sales tax rate from 7.5 per cent to 7.0 per cent, effective October 21, 2004. Growth in sales tax revenue is expected to average 5.0 per cent over the next two years, in line with the economic forecast for taxable expenditures.

- *Property transfer tax* – decreasing 23.3 per cent in 2005/06, reflecting an anticipated moderation in housing market activity from the rapid pace recorded in 2004/05. In addition, government has increased the threshold

for first-time homebuyers, which reduces revenue by $15 million in 2005/06. The forecast assumes a further 10.9 per cent decline in 2006/07 before increasing 2.4 per cent in 2007/08.

Natural Resource Revenue

- *Energy and minerals* – increasing $264 million in 2005/06 over 2004/05 reflecting assumed higher natural gas prices and bonus bid sales, and increased revenue from coal production. Natural gas prices are forecast to increase from C$5.52/gigajoule in 2004/05 to C$5.71 and C$5.75 in 2005/06 and 2006/07 before moderating slightly to C$5.28 in 2007/08. Contract coal prices are forecast to increase from US$51/tonne in 2004 to US$120/tonne in 2005, before moderating to US$100/tonne by 2007. Revenue increases $94 million in 2006/07 as slightly higher natural gas prices and increased production volumes lead to higher revenue from natural gas royalties and bonus bid sales, partly offset by reduced revenues from minerals and electricity sales under the Columbia River Treaty. In 2007/08, revenue declines $136 million as coal and energy-related commodity prices are expected to moderate. See the topic box on page 60 for more information.
- *Forests* – decreasing $225 million in 2005/06 from 2004/05 reflecting lower harvest volumes partly due to reduced lumber prices, a higher Canada/US exchange rate and lower US demand. Revenue is relatively flat over the next two years as prices are expected to remain stable and an increasing proportion of BC Timber Sales harvesting offsets overall declining volumes. The forecast assumes there is no resolution to the softwood lumber dispute.

Other Revenue

This category includes revenues from Medical Services Plan premiums, fees, licences, investment earnings, sales of goods and services, fines and other miscellaneous sources. This includes revenue collected by ministries and treated as offsets to CRF spending, as well as revenue earned from outside the government entity by taxpayer-supported Crown corporations and agencies and the SUCH sector.

- *Medical Service Plan premiums* – decreasing $31 million in 2005/06 mainly reflecting the part-year effect of the *Budget 2005* revenue measure to enhance premium assistance for BC residents. Revenue declines a further $5 million in 2006/07 due to the full year impact of this measure before rising in 2007/08.
- *Post-secondary fees* – projected revenue growth of 11.5% in 2005/06 based on forecasts submitted by the universities and colleges. This includes their assumptions for tuition fee increases and student seat growth.
- *Investment earnings* – forecast to average 4.9 per cent growth over the three years reflecting expected rising interest rates and increased borrowing by Crown corporations through the fiscal agency loan program.
- *Miscellaneous* – forecast to average 2.1 per cent annual growth over the three years reflecting higher recoveries from ministries, and the SUCH sector.

Table 1.15 Three-Year Revenue Forecast Update – Changes from *Budget 2004*

($ millions)	2004/05	2005/06	2006/07
***Budget 2004* Fiscal Plan (February 17, 2004)** [1]	**30,492**	**31,211**	**32,221**
Additional revenue from the First Ministers' accord on health care renewal	148	148	18
Fiscal Plan (May 20, 2004 *Supply Act*)	**30,640**	**31,359**	**32,239**
Taxpayer supported revenue changes:			
Personal income tax	50	(100)	(97)
Corporate income tax	363	299	121
Social service tax	(90)	(240)	(227)
Property transfer tax	168	60	10
Other tax revenues	65	53	58
Energy revenues	170	480	643
Mineral revenues	53	183	175
Forest revenues	306	68	33
Columbia Power Corporation/Columbia Basin Trust	(57)	(57)	(70)
Medical Services Plan premiums	60	14	(7)
Post secondary education fees	66	95	98
Health and social transfers	66	459	772
Equalization entitlements	578	170	(422)
All other taxpayer supported revenue including accounting adjustments	(93)	138	107
Taxpayer supported revenue changes	**1,705**	**1,622**	**1,194**
Commercial Crown corporations net income changes:			
BC Hydro net income (before deferral account transfers)	(78)	(53)	(16)
BC Rail Investment Partnership	138	25	3
Liquor Distribution Branch	8	(14)	(8)
BC Lotteries	-	(50)	(60)
ICBC	308	179	133
Other self-supported Crown corporations	5	8	12
Commercial Crown corporation net income changes	**381**	**95**	**64**
***Budget 2005* Updated Fiscal Plan**	**32,726**	**33,076**	**33,497**

[1] Restated to be consistent with *Budget 2005* presentation.

Contributions from the Federal Government

Federal government payments received under health and social transfer and equalization programs are the major sources of transfer payments. Other sources include payments from the federal government for health, education, social, transportation and other cost-shared programs. This includes federal transfers to ministries that are treated as offsets to spending and payments received by taxpayer-supported Crown corporations and agencies and the SUCH sector.

- *Federal government health and social transfers* – The 2005 plan incorporates the additional federal funding for health from the agreement reached at the September 2004 First Ministers' Meeting. The updated plan assumes that all cash received in 2004/05 from the federal government as a result of this agreement will be deferred to future years to match the increased expenditures. As a result, revenue increases 20.5 per cent in 2005/06 and grows a further 8.8 per cent and 6.5 per cent in the next two years reflecting increased federal government funding.

- *Equalization* – In 2005/06, equalization revenue is $590 million, as defined by the new framework established at the October 2004 First Ministers' Meeting. In 2006/07 and 2007/08, equalization revenue is forecast to be zero as the basis for provincial entitlements has not been determined for those years. See the topic box in the second *Quarterly Report* - 2004/05 for further details.

Compared to the *Budget 2004* plan, overall taxpayer-supported revenue is forecast to be $1,705 million higher in 2004/05, up $1,622 million in 2005/06 and $1,194 million higher in 2006/07. The main areas of change are:

- *Personal income tax* – up $50 million in 2004/05 mainly due to higher-than-expected tax assessments for the 2003 tax year, partly offset by $30 million of tax measures introduced in *Budget 2005*. Revenue is down $100 million and $97 million in 2005/06 and 2006/07, mainly due to the policy change to reduce taxes for low and moderate income taxpayers.
- *Corporate income tax* – up $363 million in 2004/05 reflecting higher instalment payments from the federal government due to an improved 2004 national corporate profits outlook and a $217-million gain due to higher final 2003 tax assessments. Revenue is up $299 million and $121 million over the next two years due to the effects of higher national and BC corporate tax bases. These improvements are partly offset by BC *Budget 2005* tax measures in addition to the federal government's measures in its 2004/05 budget.
- *Social service tax* – down $90 million in 2004/05 reflecting lower collections due to the reduced sales tax rate, partly offset by higher-than-expected growth in taxable expenditures. In 2005/06 and 2006/07, revenue is down $240 million and $227 million from *Budget 2004* mainly due to the full-year impacts of the sales tax reduction.
- *Property transfer tax* – up $168 million in 2004/05 due to the very strong housing market over the past year. The forecast assumes that house sales will not continue at the same pace and revenue returns to trend levels resulting in lower variances from *Budget 2004* of $60 million and $10 million in 2005/06 and 2006/07. In addition, the forecast incorporates the effect of increasing the threshold for first-time homebuyers.
- *Other taxes* – up $65 million, $53 million and $58 million over the three years mainly due to higher corporation capital, insurance premium and tobacco taxes reflecting improved collections in 2004/05.
- *Energy and minerals* – The overall revenue forecast from energy and mineral sources is up from the *Budget 2004* plan mainly due to an improved outlook for natural gas, electricity and coal prices. Revenue has increased $223 million, $663 million and $818 million over the 2004/05 to 2006/07 period. See the topic box at the end of Part 1 and Table A10 for more details.
- *Forests* – up $306 million in 2004/05 reflecting higher lumber and pulp prices in 2004 and higher harvest volumes, due in part to stronger US demand. Revenue is expected to be up $68 million in 2005/06 and $33 million in 2006/07 due to assumed higher harvest volumes and an increased BC Timber Sales share of the overall harvest. The improvement

is lower in the last two years as forest sector prices are expected to be little changed and the Canada-US exchange rate is forecast to be slightly higher than assumed in *Budget 2004*.

- *Columbia Power Corporation and Columbia Basin Trust* – down $57 million, $57 million and $70 million from *Budget 2004* reflecting a reclassification of Columbia Power projects back to commercial Crown corporation status.
- *Medical Services Plan premiums* – up $60 million and $14 million in 2004/05 and 2005/06 compared to *Budget 2004*. The increase in 2004/05 reflects a change in the accounting treatment of premium revenue and allowance for doubtful accounts. Changes in 2005/06 and 2006/07 reflect higher commission costs and the *Budget 2005* measure to enhance premium assistance.
- *Post secondary education fees* – up $66 million, $95 million and $98 million from *Budget 2004* over the three years 2004/05 to 2006/07. The increases reflect forecasts submitted by the universities and colleges. This includes their assumptions for tuition fee increases and student seat growth.
- *Other fees and licences* – down $36 million in 2004/05, up $88 million in 2005/06 and up $25 million in 2006/07 mainly due to a revised plan of providing free Crown grants and nominal rent tenures to establish new parks, transfer provincial parks to local government, and other land transfers. This reflects a non-cash transaction that records the write-up of land from book value to market value as increased revenue, but has no impact on government's bottom line as there is an offsetting expense recorded in the budget of Ministry of Sustainable Resource Management.
- *Equalization* – up $578 million in 2004/05 and $170 million in 2005/06 reflecting the new framework established by the October, 2004 First Ministers' Meeting. In 2006/07, equalization revenue is forecast to be zero, down $422 million from *Budget 2004* as the basis for the allocation has not been determined.
- *Health and social transfers* – up $66 million in 2004/05 mainly due to prior-year adjustments. The forecast assumes that additional cash to be received in 2004/05 due to increased funding from the September, 2004 First Ministers' Meeting will be deferred to future years and matched with increased expenses. Revenue is up $459 million in 2005/06 and $772 million in 2006/07 reflecting higher transfers as a result of the First Ministers' Meeting in September 2004. Component details are shown in Table A10.

Commercial Crown Corporation and Agency Net Impact

- *British Columbia Hydro and Power Authority* – At $395 million, the BC Hydro forecast income before regulatory transfers for 2005/06 is $53 million less than the forecast in the *Budget 2004* fiscal plan.

  The 4.85 per cent rate increase confirmed by the BC Utilities Commission in November 2004 is less than the interim increase assumed in last year's budget. This downward pressure is partially offset by reduced finance charges, due to lower debt levels and interest rates, and lower amortization costs reflecting BCUC decisions on amortization rates.

Water inflows to reservoirs, which determine the amount of low-cost hydro generation available to BC Hydro, are forecast to be 98 per cent of normal (based on the January 2005 snow pack levels) – slightly lower than last year's plan, which assumed normal water inflows.

- *British Columbia Liquor Distribution Branch (LDB)* – At $779 million, LDB's projected net income for 2005/06 is $14 million less than the forecast in the *Budget 2004* fiscal plan. Product costs and discounts to licensee retail stores are increasing at a faster rate than sales, resulting in a lower rate of growth in gross margin. As well, increased operating costs reflect LDB's retail marketing plan, including credit card use and improvements to its retail outlets.
- *British Columbia Lottery Corporation* – BC Lotteries' total transfers to the government (after distribution to the federal government) are projected at $892 million for 2005/06, $50 million less than the *Budget 2004* forecast. Lottery and bingo revenue projections have declined due to lower player participation in lottery games and a slower than projected introduction of community bingo gaming centres. This is partially offset by an increase in the casino gaming revenue forecast.

  A large portion of BC Lotteries' transfers to government is redistributed to charities and local governments. For 2005/06, the government forecasts that it will distribute $212 million of gaming revenue to these entities – $137 million to charities, $69 million to local governments, and $6 million for horseracing purse enhancement. The net proceeds after distributions will be $680 million, of which $147 million is allocated to the Health Special Account and $533 million will go into general revenue to fund healthcare, education and social services.
- *British Columbia Railway Company* – At $76 million, BC Rail's forecast earnings for government's 2005/06 fiscal year are $25 million higher than the *Budget 2004* outlook. The increase reflects changes in assumptions for the timing of the disposal of Vancouver Wharves and the Port Subdivision.
- *Insurance Corporation of British Columbia* – ICBC's outlook for the government's 2005/06 fiscal year is projected at $176 million, a $179 million improvement over the outlook in *Budget 2004*. The improvement is primarily due to lower projected claims costs. Other improvements include lower operating costs and higher investment income. These gains are partially offset by a forecast reduction in premium revenue due to lower rate increase expectations.

Full-Time Equivalents (FTEs)

Taxpayer-supported FTEs, including ministries and special offices (CRF), taxpayer-supported Crown corporations and agencies and regional authorities, is projected at 31,220 in 2005/06. This represents an increase of 350 FTEs from the 2004/05 forecast and is 400 FTEs higher than the 2005/06 forecast in last year's fiscal plan.

By 2007/08, FTEs are projected to increase a further 255 to total 31,475 FTEs. Table 1.16 provides details of changes from last year's plan. FTEs of the SUCH sector are not included in these forecasts.

Table 1.16 Full-Time Equivalents (FTEs) – Changes from *Budget 2004*

FTEs	2004/05	2005/06	2006/07	2007/08
Ministries and special offices (CRF):				
***Budget 2004* Fiscal Plan**	**27,160**	**26,490**	**24,465**	
Changes:				
Anticipated 2004/05 underutilization	(175)	-	-	
Attorney General (additional court services for policing strategy)		41	74	
Children and Family Development (Child and Youth Mental Health Plan, and transition to governance authorities)		368	2,072	
Energy and Mines (primarily oil and gas strategy)		26	26	
Finance (One-Stop services and Registries for small business)		29	29	
Forests (primarily Mountain Pine Beetle response, Filmon response, Forest Investment, and First Nations agreements)		303	323	
Health Services (BC Ambulance Service)		113	165	
Management Services (alternative service delivery)		(90)	(90)	
Provincial Revenue (alternative service delivery)		(246)	(246)	
Public Safety and Solicitor General (corrections, Filmon response and policing strategy)		77	123	
Sustainable Resource Management (Land Title and Survey Authority)		(126)	(126)	
Transportation (primarily rest area enhancement)		76	76	
Water, Land and Air Protection (BC Conservation Corporation)		69	75	
Other ministry changes (net)	-	20	24	
	(175)	660	2,525	
***Budget 2005* Updated Fiscal Plan**	**26,985**	**27,150**	**26,990**	**24,530**
Taxpayer-supported Crown corporations and agencies:				
***Budget 2004* Fiscal Plan**	**3,940**	**3,930**	**3,910**	
Changes:				
BC Assessment Authority	(10)	53	14	
BC Buildings Corporation – outsourcing initiative	(31)	(6)	(10)	
Tourism BC - increased operations	3	11	12	
Organized Crime Agency - transfers to Combined Forces Unit	(45)	(76)	(76)	
Other changes (net)	13	13	35	
	(70)	(5)	(25)	
***Budget 2005* Updated Fiscal Plan**	**3,870**	**3,925**	**3,885**	**3,895**
Children and Family Development Regional authorities:				
***Budget 2004* Fiscal Plan**	**-**	**400**	**2,400**	
Changes:				
Children and Family Development governance authorities[1]	15	(255)	(1,860)	
***Budget 2005* Updated Fiscal Plan**	**15**	**145**	**540**	**3,050**
Summary:				
Ministries and special offices (CRF)	26,985	27,150	26,990	24,530
Taxpayer-supported Crown corporations and agencies	3,870	3,925	3,885	3,895
Regional authorities[1]	15	145	540	3,050
***Budget 2005* Updated Fiscal Plan**	**30,870**	**31,220**	**31,415**	**31,475**

[1] Number of FTEs to be transferred and the timing of the transfers will be based on an assessment of authority readiness.

Ministries and special offices (CRF)

The 2005/06 FTEs projection for ministries and special offices is 27,150 FTEs – a net increase of 660 FTEs from last year's fiscal plan. The increase reflects priorities in a number of areas, such as additional support for ambulance services, child and youth mental health, the response to the mountain pine beetle and the Filmon Firestorm Report, additional policing and corrections support and oil and gas strategies.

Approximately 3,000 FTEs within the Ministry of Children and Family Development were to be transferred to new governance authorities by 2006/07. Community Living BC is expected to assume full control over services to adults and children with developmental disabilities in the summer of 2005. The establishment of regional aboriginal authorities will occur in 2006/07, followed by regional authorities for non-aboriginal child and family services in 2007/08. The authorities will be considered established when they assume responsibility under legislation for the delivery of some or all services. Further information is available in the ministry's service plan.

Taxpayer-supported Crown corporations and agencies

The 2005/06 taxpayer-supported Crown corporation and agency FTE projection is 3,925 – a decrease of 5 FTEs from last year's fiscal plan. The reduction is primarily due to the impact of moving the Organized Crime Agency of BC Society under the umbrella of the Combined Forces Special Enforcement Unit, partially offset by increased operational requirements of Tourism BC and the BC Assessment Authority.

Capital Spending

In addition to funding municipal and regional infrastructure delivered by local governments, the province also invests directly in capital infrastructure to provide services to the public and facilitate economic development. Provincial capital infrastructure investments are made through school districts, health authorities, post-secondary institutions, Crown agencies and ministries.

Taxpayer-supported capital spending

Taxpayer-supported capital spending includes capital infrastructure for school districts, health authorities, post-secondary institutions, taxpayer-supported Crown agencies, and ministries.

The capital spending numbers for health and education reflect the forecasts for health authorities, school districts and post-secondary institutions. Annual interest costs on capital related debt are also charged against government's surplus.

Taxpayer-supported capital spending is projected to range from $2.8 billion in 2005/06 to $2.1 billion in 2007/08. Significant elements of this projected spending include the following:

[1] Capital investments are not included in the government's annual surplus or deficit. In accordance with generally accepted accounting principles (GAAP), annual amortization expenses that recognize the estimated wear and tear of capital assets during the fiscal year are included in the government's annual expenses instead of recording the full capital costs as they occur.

Table 1.17 Capital Spending

($ millions)	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported					
Education	604	791	855	633	588
Health	326	501	753	662	500
BC Transportation Financing Authority	500	579	586	645	535
Rapid Transit Project 2000	19	18	13	13	-
Vancouver Convention Centre Expansion Project	70	37	126	147	143
Columbia River power projects [1]	90	-	-	-	-
Government operating (ministries)	257	241	352	339	255
Other [2]	77	64	110	69	51
Total taxpayer-supported	**1,943**	**2,231**	**2,795**	**2,508**	**2,072**
Self-supported					
BC Hydro	821	681	829	1,008	993
BC Transmission Corporation	-	-	37	82	32
Columbia River power projects [1]	-	90	38	34	142
BC Rail	17	31	22	6	-
ICBC [3]	66	38	46	36	30
BC Lotteries	75	104	60	60	60
Liquor Distribution Branch	12	12	30	21	13
Total self-supported commercial	**991**	**956**	**1,062**	**1,247**	**1,270**
Total capital spending	**2,934**	**3,187**	**3,857**	**3,755**	**3,342**

[1] Joint ventures of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). This capital spending has reverted to self-supported status.

[2] Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, and BC Transit.

[3] Includes ICBC Properties Ltd.

- A $1.5 billion program to seismically upgrade all at-risk schools in the province over fifteen years. This program will cover both structural and non-structural upgrading of school facilities. A long-term plan for the program will be established with school boards and the Ministry of Education.

- In addition to fully funding its share of annual costs for seat growth, the province is also providing almost $800 million in capital funding for infrastructure to accommodate seat growth, replace existing infrastructure and facilitate research activities throughout the post-secondary system. Examples of post-secondary projects included in projected capital spending are the University of Victoria Pacific Time Series Undersea Networked Experiment (NEPTUNE), the British Columbia Institute of Technology Sea Island expansion, the Selkirk College Castlegar Aviation Centre and the University College of the Cariboo Williams Lake replacement campus. Post-secondary institutions utilize own-source revenues in addition to provincial funding, to finance capital infrastructure.

- The Ministry of Health Services will also provide $735 million (including federal equipment funding) in capital grants to health authorities for new major construction and upgrading of existing health facilities, equipment, and clinical information systems over the next three years.

  The ministry will be investing $66 million over three years to further the implementation of the Electronic Health Record. This includes leveraged funding of $30 million from Canada Health Infoway. Examples of major capital equipment projects currently underway include: Abbotsford Regional

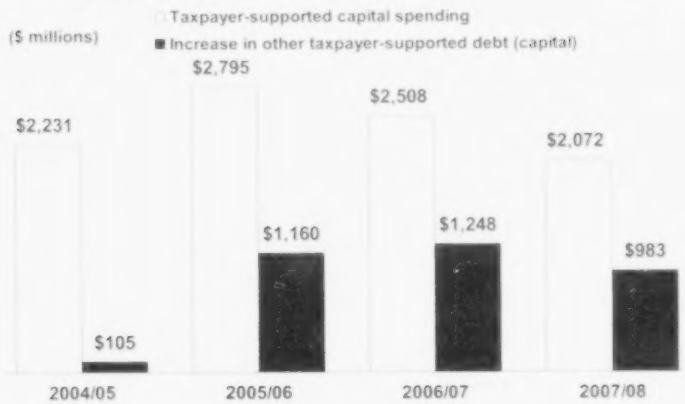
Hospital and Cancer Centre; Nanaimo Regional General Hospital – expansion to improve access to patient care, maternal programs and surgical services on Central Vancouver Island; Vancouver Cancer Centre – radiation therapy annex to accommodate two new and two replacement Linear Accelerators; Academic and Ambulatory Care Centre at Vancouver General Hospital; new academic space in teaching hospitals around BC including Prince George Regional Hospital, Victoria General Hospital and Royal Jubilee Hospital; Bulkley Valley District Hospital – Emergency Department and Diagnostic Imaging renovation; Whistler Health Centre – Emergency Department renovations; purchase of a new mobile magnetic resonance imaging machine (MRI) to serve Cranbrook, Trail and Penticton hospitals; and Picture Archiving Communication Systems in Northern, Interior and Fraser Health Authorities which allow digital images to be shared between hospitals, regions and radiologists. Some of these projects receive funding from various funding partners including Regional Hospital Districts and Foundations.

- Continued implementation of the transportation investment plan (see the topic box on page 58 for more information).
- The Vancouver Convention Centre Expansion Project (VCCEP). Capital spending for VCCEP on Table 1.17 is based on the total capital cost of the VCCEP, reflecting the funding provided by all partners; the province, Canada, and Tourism Vancouver. Table 1.18 shows the capital expenditures for the VCCEP associated with provincial financing only, which totals $230 million. Table 1.13 provides the timing and amount of provincial funding grants provided to the VCCEP. These grants are eliminated in the summary financial statements, so that only the total capital expenditures of the VCCEP are reported in the government financial statements.

Provincial capital infrastructure spending is financed through a combination of sources:

- cash balances;
- partnerships with the private sector (public-private-partnerships);
- cost-sharing with partners; and/or
- borrowing (debt-financing).

Chart 1.15 Capital financed through debt



Debt-financing continues to represent a significant source of financing for provincial capital spending, so the level of capital spending has a significant impact on projected provincial debt.

Self-supported capital spending

Total capital spending includes capital infrastructure for self-supported commercial Crown corporations.

Self-supported capital spending is projected to range from $1.1 billion in 2005/06 to $1.3 billion in 2007/08. The majority of this capital spending is for electrical generation, transmission and distribution projects carried out through BC Hydro and BC Transmission Corporation to enhance reliability, public safety and growing demand. In addition to the projects shown on Table 1.18, other examples of electrical generation, transmission and distribution projects included in self-supported capital spending are new substations in Maple Ridge and Langley, redevelopment of the Aberfeldie generating station, and seismic upgrades of the Coquitlam and Stave Falls dams.

Further details on provincial capital investments are shown in the service plans of ministries and Crown corporations.

Projects over $50 million

As required under the *Budget Transparency and Accountability Act*, major capital projects with multi-year budgets totaling $50 million or more are shown in Table 1.18. Annual allocations of the full budget for these projects are included as part of the provincial government's capital investment spending shown in Table 1.17.

Over the next three years over $1 billion of provincial funding will be spent on major capital investments (greater than $50 million) including:

- $390 million for health care facilities including Vancouver General Hospital, the Academic Ambulatory Care Centre, and the Abbotsford Regional Hospital and Cancer Centre.
- $175 million for major transportation capital infrastructure. In addition, the Ministry of Transportation is investigating financial and project delivery options through P3s for improvements to Lower Mainland infrastructure, the Okanagan Lake Bridge in Kelowna, and the Trans Canada Highway in the Kicking Horse Canyon. Provincial funding for the RAV project is not included in the province's capital spending, but is included in the transportation investment plan.
- $252 million for power generation and transmission capital projects by BC Hydro, BC Transmission Corporation and the Brilliant Expansion Power Corporation.
- $166 million for other projects including the Vancouver Convention Centre Expansion Project and tenant improvements for Surrey Central City (BCIB Properties Ltd.).

Table 1.18 identifies the provincial share of funding for major capital projects over $50 million. However, total costs for some of these projects are higher as they are cost-shared with the federal government, municipal authorities or the private sector.

Table 1.18 Capital Expenditure Projects Greater Than $50 million[1]

($ millions)	Start Date	Forecast Completion Date	Estimated Cumulative Spending at Mar. 31, 2005[2]	Spending 2005/06	Spending 2006/07	Spending 2007/08	Cumulative Spending at Mar. 31, 2008[3]	Total Project Budget	Total Project Forecast
Advanced Education facilities[4]									
UBC – Life Sciences Centre	Apr. 2002	Mar. 2005	110	-	-	-	110	110	110
SFU – Surrey Central City Campus	Mar. 2004	Sept. 2007	40	13	16	1	70	70	70
Total advanced education			150	13	16	1	180	180	180
Health facilities[4]									
Vancouver General Hospital redevelopment project	Sept. 2000	Jan. 2007[5]	96	44	16	-	156	156	156
Academic Ambulatory Care Centre	Fall 2004	Summer/06	10	68	17	-	95	95	95
Abbotsford Regional Hospital and Cancer Centre	Fall 2004	Summer/08	45	106	126	19	296	316	316
Total health facilities			151	218	159	19	547	567	567
Transportation									
Trans Canada Highway – 5 Mile (Yoho) Bridge	May 1999	Fall 2006	34	6	2	-	42	42[6]	42[6]
Nisga'a Highway	Aug. 1998	Fall 2005	43	9	-	-	52	52	52
Sea-to-Sky Highway	April 2003	Winter 2009	79	68	43	20	210	TBD[7]	TBD[7]
SkyTrain extension – phase 1	Sept. 1998	June 2006	1,080	14	13	-	1,107	1,167	1,107
Total transportation			1,236	37	58	20	1,411	1,261	1,201
Power generation									
BC Hydro									
– Seven Mile Dam safety improvements	June 1999	Mar. 2005	61	3	-	-	64	100	64
– Mica Dam – generator stator replacement	Feb. 2004	July 2009	5	10	16	19	50	52	63
– Peace Canyon Dam – generator stator replacement and rotor modification	Feb. 2004	July 2009	1	8	15	16	40	64	64
BC Transmission Corporation									
– System control centre modernization project	Feb. 2005	Apr. 2009	13	23	74	23	133	134	134
Brilliant Expansion Power Corporation[8]									
– Brilliant Dam power expansion	Oct. 2002	Aug. 2006	160	26	19	-	205	205	205
Total power generation			240	70	124	58	492	555	530
Other									
ICBC Properties Ltd.									
– Surrey Central City Mall Ltd.	Sept. 1999	Dec. 2005[9]	247	16	6	-	269	312	269
Vancouver Convention Centre Expansion Project	2003	2008	48	50	44	50	192	230	230[10]
Total other			295	66	50	50	461	542	499

[1] Amounts in this table only represent provincial spending on projects that have been approved by Treasury Board and/or Crown corporation boards. Ministry service plans may report amounts that include funding from other sources, and they may include projects that still require final approval.

[2] Total expenditures since commencement of each project.

[3] Represents sum of annual budgeted expenditures to complete each project.

[4] Amounts shown exclude interest costs incurred during construction.

[5] Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.

[6] Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is $65 million.

[7] The provincial and private sector portions of this cost-shared project are to be determined. Total project cost is estimated at $600 million.

[8] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

[9] The base building was substantially completed in January 2003; however, work to prepare space for new tenants is still required.

[10] Amount represents the provincial portion of this cost-shared project with the federal government and the tourism industry.

Provincial Debt

In 2004/05, provincial debt is forecast to decrease by $1.7 billion to total $36.1 billion, $3.3 billion below budget. In 2005/06, total provincial debt will increase $1.2 billion from the 2004/05 updated forecast to total $37.3 billion. The 2005/06 change reflects:

- a $185 million decrease in government direct operating debt (resulting from cumulative deficits/surpluses of the consolidated revenue fund);
- a $1.2 billion increase in taxpayer-supported debt mainly to finance net capital requirements;
- a $194 million increase in commercial Crown corporation debt, mainly to fund power generation and transmission capital projects by BC Hydro and BC Transmission; and
- a $100 million increase in the forecast allowance to mirror the $400 million income statement forecast allowance.

Over the following two years, government direct operating debt is forecast to decrease $1.2 billion reflecting continued surpluses. Other taxpayer-

Table 1.19 Provincial Debt Summary [1]

($ millions unless otherwise indicated)	2004/05 Budget	2004/05 Updated Forecast [2]	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported debt					
Provincial government direct operating debt	16,558	[3] 14,175	13,990	13,633	12,744
Other taxpayer-supported debt (mainly capital)					
Education [2]	6,901	6,796	7,273	7,837	8,300
Health [2]	2,479	2,393	2,755	3,103	3,318
Highways and public transit	5,018	4,527	4,867	5,219	5,542
Other [4]	1,159	722	703	687	669
Total other taxpayer-supported debt	15,557	14,438	15,598	16,846	17,829
Total taxpayer-supported debt	32,115	28,613	29,588	30,479	30,573
Self-supported Commercial Crown corporations and agencies debt	7,180	7,150	7,344	7,819	8,476
Total debt before forecast allowance	39,295	35,763	36,932	38,298	39,049
Forecast allowance [5]	100	300	400	450	550
Total provincial debt	39,395	36,063	37,332	38,748	39,599
Debt as a per cent of GDP					
Provincial government direct operating	11.3%	9.1%	8.6%	8.0%	7.2%
Taxpayer-supported	21.8%	18.5%	18.2%	18.0%	17.3%
Total provincial	26.8%	23.3%	23.0%	22.9%	22.4%
Taxpayer-supported debt per capita ($)	7,674	6,819	6,982	7,118	7,064
Taxpayer-supported interest bite (cents per dollar of revenue)	6.4	5.2	5.5	5.7	5.8

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

[2] Includes debt and guarantees incurred by the government on behalf of school districts, universities, colleges and health authorities/hospital societies (SUCH), and debt directly incurred by these entities.

[3] Restated to reflect a change in accounting policy for the defeasance of debt (budget estimate is reduced by $57 million).

[4] Includes taxpayer-supported Crown corporations and agencies, other fiscal agency loans, student assistance loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

[5] Reflects the operating statement forecast allowance for each year (amounts are not cumulative). Since it is unknown as to which agency would require this debt, the borrowing allowance is shown as a separate item over the plan.

supported debt will increase $2.2 billion to finance capital requirements. Self-supported debt will increase $1.1 billion, mainly to fund power generation and transmission projects.

The debt forecast assumes a forecast allowance of $400 million in 2005/06, $450 million in 2006/07 and $550 million in 2007/08 to mirror the operating statement forecast allowance. Should the government not require this allowance, projected debt levels under the fiscal plan would be lower by the amount of the forecast allowance for each year.

The government direct operating debt to GDP ratio is forecast to steadily decline from 9.1 per cent of GDP to 7.2 per cent of GDP by 2007/08, reflecting on-going surpluses over the three year fiscal plan.

The ratio of taxpayer-supported debt, which excludes commercial Crown corporations and other self-supported debt, to GDP is a key measure often used by financial analysts and investors to assess a province's ability to repay debt. Consistent with government's strategic plan commitment the taxpayer-supported debt to GDP ratio falls over the three year plan, keeping debt affordable for future generations of British Columbians. In 2005/06 taxpayer-supported debt is forecast to decrease to 18.2 per cent of GDP, 18.0 per cent of GDP in 2006/07 and 17.3 per cent of GDP in 2007/08. The change from the *Budget 2004* forecast reflects a $3.5 billion improvement in taxpayer-supported debt in 2004/05, operating surpluses over the next three years and higher GDP forecasts. Taxpayer-supported interest costs are expected to rise to 5.8 cents per dollar of revenue by 2007/08, due to higher interest rates and increased taxpayer-supported capital debt.

Table 1.20 Provincial Financing

($ millions)	Debt [1] Outstanding at March 31, 2004	2004/05 Debt Change	Forecast Debt [1] Outstanding at March 31, 2005	2005/06 Transactions			Estimated Debt [1] Outstanding at March 31, 2006
				New Borrowing [2]	Retirement Provision [3]	Net Change	
Taxpayer-supported debt							
Provincial government direct operating	15,694 [4]	(1,519)	14,175	825	1,010	(185)	13,990
Education [5]	6,520	276	6,796	825	348	477	7,273
Health [5]	2,215	178	2,393	489	127	362	2,755
Highways and public transit	4,880	(353)	4,527	907	567	340	4,867
Other debt [6]	718	4	722	62	81	(19)	703
Total taxpayer-supported debt	**30,027**	**(1,414)**	**28,613**	**3,108**	**2,133**	**975**	**29,588**
Self-supported debt Commercial Crown corporations and agencies	**7,739**	**(589)**	**7,150**	**712**	**518**	**194**	**7,344**
Forecast allowance	**-**	300	**300**	**100**	**-**	**100**	**400**
Total provincial debt	**37,766**	**(1,703)**	**36,063**	**3,920**	**2,651**	**1,269**	**37,332**

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

[2] New long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[4] Restated to reflect a change in accounting policy for the defeasance of debt (2003/04 balance is reduced by $60 million).

[5] Includes debt and guarantees incurred by the government on behalf of school districts, universities, colleges and health authorities/hospital societies (SUCH) and debt directly incurred by these entities.

[6] Includes taxpayer-supported Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

Table 1.20 summarizes the provincial financing plan for 2005/06. New borrowing of $3.9 billion is anticipated, of which $2.6 billion will be used to replace maturing debt and $1.3 billion will be used for capital and financing requirements.

Further information on provincial debt can be found in the topic box on page 55 and additional details on the debt outstanding for government, Crown corporations and agencies are provided in Appendix Tables A15 and A16.

Risks to the Fiscal Plan

The risks to the fiscal plan stem mainly from changes in factors that government does not directly control. These include:

- Assumptions underlying revenue and Crown Corporation and agency forecasts such as economic factors, commodity prices and weather conditions.
- The outcome of litigation, arbitrations, and negotiations with third parties, such as the softwood lumber dispute.
- Utilization rates for government services such as health care or employment assistance.

In addition, changes in accounting treatment or revised interpretations of GAAP could have material impacts on the bottom line.

Table 1.21 summarizes the approximate effect of changes in some of the key variables on the surplus. However, individual circumstances and inter-relationships between the variables may cause the actual variances to be higher or lower than the estimates shown in the table. For example, a decrease in natural resource revenues may be offset by an increase in commercial Crown corporation incomes; or as occurred in 2003/04, an increase in the US/Cdn exchange rate can be largely offset by higher commodity prices.

The experience of the 2003/04 fiscal year also demonstrated the tendency for negative fiscal shocks – forest fires, floods, BSE, equalization revenue losses – to be offset by positive variances in other areas – commercial Crown corporation incomes, taxation and energy revenues, and other improvements.

Table 1.21 Fiscal Sensitivities

Variable	Increases of	Fiscal Impact ($ millions)
Nominal GDP	1%	$150 – $250
Lumber prices (US$/thousand board feet)	$50	$80 – $140
Natural gas prices (Cdn$/gigajoule)	50 cents	$120 – $170
Wage and compensation rates	1%	-$160
US exchange rate (US cent/Cdn $)	1 cent	-$25 to -$40
Interest rates	1 percentage point	-$130

In 2003/04, the $500 million forecast allowance was not needed, as the positive effects more than offset the negative fiscal shocks.

By contrast, the 2001/02 fiscal year saw an unexpectedly sharp decline in the economy, as the US went into recession and travel between nations was severely impacted by the aftermath of September 11. In this year, $300 million of the $500 million forecast allowance was used in meeting the bottom line target.

Contingency Vote

A $270 million contingency vote is included in each of 2005/06 and 2006/07 to handle budget overruns by ministries arising from external or unpredicted circumstances or forecast variances. The contingency vote is increased to $310 million in 2007/08 reflecting a $40 million allocation of the $140 million 2010 Olympics contingency budget as part of government's $600 million commitment to the 2010 Games.

Forecast Allowance

In 2005/06, the government continues to build a forecast allowance into the bottom-line to act as a cushion against possible deterioration in revenue or other forecasts, and thus increase the certainty of meeting the balanced budget targets established in the fiscal plan.

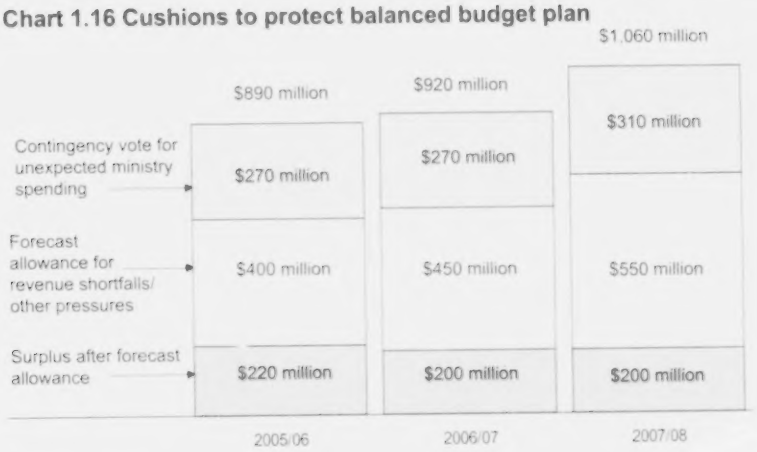
A forecast allowance of $400 million is included in the 2005/06 budget. This forecast allowance has the explicit effect of reducing the expected surplus from the government's most likely forecast of $620 million in 2005/06 to a more conservative budget surplus of $220 million. The explicit nature of the adjustment to the surplus flows from the *Budget Transparency and Accountability Act* that requires disclosure of adjustments to the most likely fiscal result.

A corresponding $400 million borrowing allowance has also been included in the provincial debt forecast for 2005/06, increasing the total debt forecast by $400 million compared to the most likely forecast.

Forecast allowances for the 2006/07 and 2007/08 fiscal years have been increased since the first *Quarterly Report* in September 2004, and now rise to $450 million for 2006/07 and $550 million for 2007/08. The higher forecast allowances reflect increased risks to the surplus arising from continued high energy prices, and from spending pressures from future public sector wage settlements.

Combined with the forecast surpluses, the total cushion protecting the balanced budget plan against economic, revenue and other forecast risks is $890 million in 2005/06, $920 million in 2006/07 and $1,060 million in 2007/08. The size of these cushions is consistent with the recommendations made by the Fiscal Review Panel in July 2001.

Chart 1.16 Cushions to protect balanced budget plan



SUCH Sector

SUCH sector forecasts have been provided by management of the various organizations based on broad policy assumptions provided by the Ministries of Health Services and Advanced Education. Forecasts for the combined schools districts have been compiled by the Ministry of Education based on the requirements of the *School Act* and the amounts of block funding included in the budget. Every effort has been made to ensure that the financial information is compiled in a manner consistent with GAAP as financial information is converted from that provided by the sectors to align with the accounting policies of the government reporting entity. While the lead financial officers and chairs of the board for the health authorities, universities, colleges and institutions have signed off on the reasonableness of these forecasts, final plans are still subject to formal approval of their Boards, as well as approval by School District boards. Final approved plans may therefore differ from the management forecasts included in the budget.

Revenue

The revenue forecast contained in the fiscal plan is based on the economic forecast detailed in Part 3: British Columbia Economic Review and Outlook. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A10.

The main areas that may affect the revenue forecast are:

- B.C.'s overall economic performance;
- exchange rate and commodity prices, especially natural gas, lumber, electricity, and coal prices;
- the outcome of the softwood lumber dispute with the US;
- water levels in the BC Hydro system;
- finalization of promised federal funding for child care. Depending on timing and mechanisms used to provide funding, this could lead to an estimated $650 million over 5 years (see the topic box on page 65 for more information). However this would have no impact on the bottom line, since the province would commit these revenues to matching amounts of spending on child care;

- final details of the federal health transfers flowing from the First Minister's Meeting of September 2004 that may affect the accounting treatment and annual amounts of revenues and consequently the spending plans of the Ministry of Health Services; and
- finalization of the mechanism for allocating fixed annual amounts of federal equalizations transfers among provinces. The federal government is establishing an independent panel to advise on mechanisms that may assist in allocation between provinces. The federal government expects to finalize the apportionment between provinces before March 31, 2006. Depending on the mechanism used, BC may receive a portion of these transfers in 2006/07 and 2007/08.

Crown corporations and agencies have provided their own forecasts that were used to prepare the fiscal plan, as well as their statements of assumptions. The boards of those corporations and agencies have included these forecasts, along with further details on assumptions and risks, in the service plans being released with the budget.

The fiscal plan does not assume or make allowance for extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. Factors such as electricity prices, water inflows into the BC Hydro system, accident trends, interest/exchange rates, decisions of an independent regulator, or pending litigation could significantly change actual financial results over the forecast period. In particular, final rulings by the independent BC Utilities Commission on rate increases for BC Hydro and ICBC could lead to different customer rate increases than those assumed here.

New decisions or directions by Crown corporation or agency boards of directors may result in changes to costs and revenues due to restructuring, valuation allowances and asset write-downs, or gains and losses on disposals of businesses or assets.

In situations where revenue could benefit as a result of a negotiated or litigated settlement, no revenue increases have been assumed except where a published agreement is available. Specifically no assumptions have been made as to potential benefits from a resolution of the softwood lumber dispute with the U.S. Additionally, due to uncertainty as to the precise conditions and accounting treatment of BC's share of federal Child Care funding signaled in the federal throne speech, or the *New Deal* plan for gas-tax sharing announced in February 2005, no additional federal transfers have been included in *Budget 2005*.

Spending

The spending forecast contained in the fiscal plan is based on ministry and taxpayer-supported Crown corporation and agency spending plans and strategies, as well as SUCH sector forecasts. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A11 and in ministry service plans. The main spending issues follow.

Public Sector Compensation

The current 'net-zero' compensation mandate that has been in place since January 2002 will continue until March 31, 2006. This mandate has recognized that BC public sector wages continue to be among the highest in the country and sixty eight agreements covering approximately 70 per cent of all employees, have been concluded under this mandate.

As the next mandate is still under development, no specific compensation increase has been included in the fiscal plan, placing a potential pressure on the surplus and forecast allowance in 2006/07 and 2007/08.

With an annual compensation bill of about $15 billion for taxpayer supported entities, and an additional $1 billion in commercial Crown corporations, a hypothetical 1 per cent annual increase in each of 2006/07 and 2007/08 could cost approximately $160 million in 2006/07, and $320 million in 2007/08.

Demand-driven Programs

The government funds a number of demand-driven programs such as Pharmacare, K-12 education, student financial assistance and income assistance. The budgets for these programs reflect the best estimate of demand and other factors such as price inflation. If demand is higher than estimated, this will result in a spending pressure to be managed.

Public Sector Program Delivery

The vast majority of government-funded services are delivered through third party delivery agencies that provide programs such as acute and continuing health care, K-12 education, post-secondary education, and community social services. All of these sectors face cost pressures in the form of program demand and non-wage inflation.

The provincial government has implemented legislative changes to provide public sector delivery agencies with greater flexibility to determine how they will deliver services. The lower cost structure made possible by the legislative changes and upcoming accountability contracts with public sector delivery agencies is reflected in this plan. If public sector delivery agencies are unable to achieve the estimated savings, budgetary pressures could arise.

Treaty Negotiations

The government is committed to negotiating affordable, working treaties with First Nations that provide certainty regarding ownership and use of provincial Crown land and resources. The province has concluded Agreements-in-Principle with the Lheidli T'enneh, Maa-nulth, Sliammon, Snuneymuxw and Tsawwassen First Nations and is seeking to reach early Final Agreements with these First Nations and the federal government. The province will therefore focus resources on key opportunities in order to reach final settlements with these First Nations and Canada. Outcomes of negotiations may ultimately affect the economic outlook and the fiscal plan when settlements are concluded.

Capital Risks

The capital spending forecasts assumed in the fiscal plan may be affected by various factors including:

- weather and geotechnical conditions causing project delays or unusual costs;
- changes in market conditions, including service demand, inflation, borrowing costs and wage settlements;
- the outcome of environmental impact studies;
- the accuracy of capital project forecasts;
- the successful negotiation of cost-sharing agreements with other jurisdictions; and
- the success of public-private sector partnership negotiations.

Unfunded Liabilities

The College, Public Service, Teachers and Municipal Pension Plans – the four major public service plans – are joint trusteeship plans. In the event that a plan deficit is determined by an actuarial evaluation, the pension boards are required to address it by contribution adjustments or other means. Any unfunded liabilities (funding basis) are therefore expected to be short term in nature. For example, the most recent actuarial valuation of the Municipal Pension Plan indicated a $789 million liability (funding basis), which is expected to be addressed by an increase to contribution rates of 1.98 per cent to be shared equally by members and employers effective July 1, 2005.

Catastrophes and Disasters

The spending plans for the Ministries of Forests and Public Safety and Solicitor General include amounts to fight forest fires and deal with other emergencies such as floods and blizzards. These amounts are based on historical averages of actual spending and on conditions of normal to moderate severity. Extreme occurrences may affect expenses in these ministries and those of other ministries.

Pending Litigation

The spending plan for the Ministry of Attorney General contains provisions for payments under the *Crown Proceeding Act* based on estimates of expected claims and related costs of settlements likely to be incurred. These estimates are based on a historical ten-year average of actual spending. Litigation developments may occur that are beyond the assumptions used in the plan (for example, higher-than-expected volumes, or size of claim amounts and timing of settlements). Various legal actions may also establish precedents requiring minimum service levels in various areas of provincial jurisdiction. These developments may also affect expenditures in other ministries.

One-time Write-downs and Other Adjustments

Ministry budgets provide for anticipated levels of asset or loan write-downs where estimates can be reasonably predicted. The overall spending forecast does not make allowance for extraordinary items other than the amount provided in the contingency vote.

Provincial Debt

The provincial government along with its Crown corporations and agencies provides services and capital infrastructure to support the social and economic programs needed for maintaining and enhancing the quality of life in British Columbia. Funding for these programs is mainly derived from government revenue. When revenues are not sufficient to offset the cost of its initiatives, government obtains financing from outside sources mainly through debt issuances that are to be repaid on future dates.

Borrowing for operations is required to finance deficits and to meet other working capital requirements such as loans and advances or changes in accounts receivable payable. This type of debt (government direct operating debt) grows during periods of deficits, but declines with surpluses. There is not a dollar for dollar relationship between changes in direct operating debt and the surplus or deficit because of changes in other balance sheet items, such as cash balances, loan receivables and other accounts receivables payables.

Borrowing for capital projects finances the building of schools, hospitals, roads and other social and economic assets. As these investments provide essential services over several years, the government, like the private sector, borrows to fund these projects and amortizes the costs over the assets' useful life.

Provincial debt is reported using two basic classifications (see Chart 1):

- Taxpayer-supported debt includes government direct debt, which is incurred for operating and capital purposes, and the debt of those Crown corporations and agencies that require an operating or debt service subsidy from the provincial government or that are fully consolidated in the summary financial statements. The SUCH sector – school districts, universities, colleges and institutes, and health-care organizations – is also included in this category.
- Self-supported[1] debt mainly includes commercial Crown corporations and agencies that generate sufficient revenues to cover interest costs and make principal repayments, and may pay dividends to the province. As a result commercial Crown corporation debt is acquired primarily to finance capital projects.

Chart 2 shows that debt levels have risen sharply over the past decade mainly to finance deficits and capital spending. Beginning in 2004/05 the government is now forecasting operating surpluses that can be used to offset borrowing requirements – however, absolute debt levels will rise to finance capital projects through March 31, 2008.

Chart 1 Debt categories

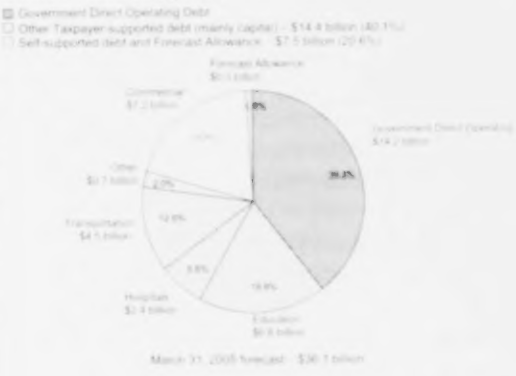
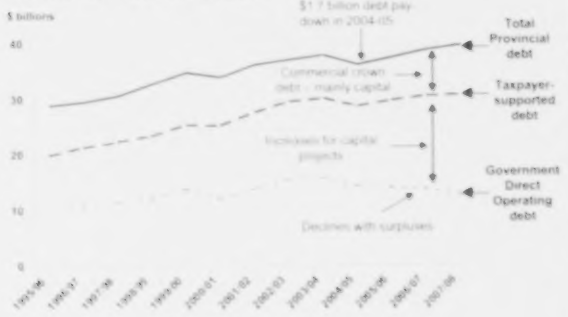


Chart 2 Historical debt track



[1] Also includes the warehouse program that is used to take advantage of borrowing opportunities in advance of requirements. These funds are invested at market rates until they are allocated to the province or its Crown corporations and agencies.

Provincial Debt

The provincial government, along with its Crown corporations and agencies, provides services and capital infrastructure to support the social and economic programs needed for maintaining and enhancing the quality of life in British Columbia. Funding for these programs is mainly derived from government revenue. When revenues are not sufficient to offset the cost of its initiatives, government obtains financing from outside sources, mainly through debt issuances that are to be repaid on future dates.

Borrowing for operations is required to finance deficits and to meet other working capital requirements such as loans and advances or changes in accounts receivable/payable. This type of debt (government direct operating debt) grows during periods of deficits, but declines with surpluses. There is not a dollar for dollar relationship between changes in direct operating debt and the surplus or deficit because of changes in other balance sheet items, such as cash balances, loan receivables and other accounts receivables/payables.

Borrowing for capital projects finances the building of schools, hospitals, roads and other social and economic assets. As these investments provide essential services over several years, the government, like the private sector, borrows to fund these projects and amortizes the costs over the assets' useful life.

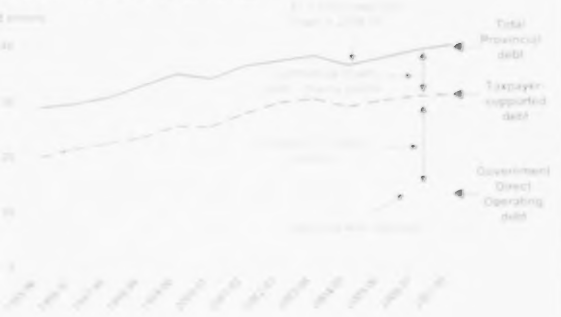
Provincial debt is reported using five basic classifications (see Chart 1):

- Taxpayer-supported debt includes government direct debt, which is incurred for operating and capital purposes, and the debt of those Crown corporations and agencies that require an operating or debt service subsidy from the provincial government or that are fully consolidated in the summary financial statements. The SUCH sector – school districts, universities, colleges and institutes, and health care organizations – is also included in this category.
- Self-supported debt mainly includes commercial Crown corporations and agencies that generate sufficient revenues to cover interest costs and make principal repayments and may pay dividends to the province. As a result, commercial Crown corporation debt is acquired primarily to finance capital projects.

Chart 2 shows that debt levels have risen sharply over the past decade mainly to finance deficits and capital spending. Beginning in 2003/04, the government is now forecasting operating surpluses that can be used to offset borrowing requirements – however, absolute debt levels will rise to finance capital projects through March 31, 2008.

Chart 1 Debt categories

Chart 2 Historical debt track



Calculating provincial debt forecasts

Numerous factors are taken into consideration when calculating provincial debt forecasts including:

- Operating results on a cash basis – the operating statement forecast is adjusted to back out non-cash items included in the surplus, for example annual non-cash amortization expenses.
- Capital spending – Capital projects may be funded through surpluses, contributions from outside of the government reporting entity (eg federal government), working capital, public-private partnership agreements, or direct borrowing. Some public-private partnerships may result in a liability included in the debt forecast, although it is not a market borrowing. For direct borrowings the debt forecast reflects the actual cash requirements to fund capital investment.
- Working capital and financing transactions – cash flows and thus debt forecasts are affected by other transactions that are not included in the operating statement. These include debt refinancing; loans and investments; borrowing in advance of requirements; and changes in accounts receivable payable. Debt also includes debt guarantees (which are not borrowings and do not pay interest), such as third party loan guarantees provided by the Homeowner Protection Office, to more closely match the reporting definitions used by the rating agencies.
- Debt forecast allowance – total provincial debt includes a forecast allowance to mirror the operating statement forecast allowance.

Reconciliation of Surplus to Change in Debt

In general, the change in debt will not equal the surplus as debt is required to finance capital spending in excess of non-cash amortization costs included in the surplus, and due to other working capital sources requirements which are changes in balance sheet items such as cash balances, loan receivables and other accounts receivables payables and do not form part of the surplus.

Table 1 provides a reconciliation of the surplus versus the change in debt. In 2004/05, the forecast reduction in debt exceeds the forecast surplus mainly due to:

- other working capital sources including the early repayment of the BC Ferry Services loan receivable; and
- lower commercial crown corporation debt resulting from the pay-down of BC Rail debt;
- partially offset by the impact of capital spending in excess of amortization.

Table 1 Reconciliation of Surplus to Change in Total Provincial Debt

($ millions)	2004/05	2005/06	2006/07	2007/08
Surplus	**1,440**	**220**	**200**	**200**
Add back: non-cash amortization included in surplus	1,355	1,395	1,406	1,431
Taxpayer-supported capital spending	(2,201)	(2,795)	(2,508)	(2,072)
Net (increase)/decrease in commercial Crown debt (mainly for capital purposes)	589	(194)	(475)	(607)
Other sources/(requirements) eg: cash accounts receivables payables	508	153	(36)	252
Changes in debt guarantees	(48)	(28)	(3)	(5)
Decrease/(increase) in Total Provincial Debt	**1,703**	**(1,269)**	**(1,416)**	**(851)**

In the updated fiscal plan, debt increases despite expected surpluses mainly due to the impacts of capital spending in excess of amortization, and higher commercial crown debt incurred for capital investments.

Debt remains affordable

With the surplus in 2004/05, and forecast surpluses over the next three years, government direct operating debt, the debt resulting from cumulative historical deficits, is forecast to decline by $1.5 billion and will steadily decline over the next three years resulting in a further cumulative reduction of $1.4 billion by 2007/08.

To meet the transportation, health and education infrastructure needs of a growing economy and replace and upgrade existing infrastructure in the health and education

sectors, significant capital investments are planned over the coming years. These investments will result in additional debt, however they also fit within the overall government strategic objective of lowering the taxpayer-supported debt-to-GDP ratio each year. This ensures that the necessary investments are made in an affordable, sustainable manner. Chart 3 shows that the government direct operating debt, taxpayer-supported debt and total provincial debt-to-GDP ratios decline over the three-year plan and that the debt burden remains affordable.

Chart 3 Debt remains affordable

Bond rating agencies

Bond rating agencies provide independent and globally consistent opinions about the credit quality of individual debt instruments or of an issuer's general credit worthiness. The rating assigned to an entity measures the risk of default over the life of a debt issuance.

Each year, BC's financial outlook, fiscal policy and debt position is evaluated by three separate rating agencies – Moody's Investors Service, Standard and Poor's and Dominion Bond Rating Service. Each agency assigns a rating to the province following their evaluation. A credit rating affects the borrower's debt servicing costs and the investor's rate of return since an investor will demand a higher interest rate on a higher-risk, lower-rated security.

Table 2 shows the relative inter-provincial credit ratings. Since *Budget 2004*, Standard & Poor's upgraded BC's credit rating to AA from AA- and Moody's Investor Service and Dominion Bond Rating Service have improved the debt rating outlook to positive from stable recognizing the improved fiscal outlook. BC's record for meeting annual budget targets and the low taxpayer-supported debt burden relative to other provincial jurisdictions.

Table 2 - Interprovincial Comparison of Credit Ratings, February 2005

	Rating Agency		
Province	Moody's Investors Service	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aa2 (positive)	AA	AA (Low) (positive)
Alberta	Aaa	AAA	AAA
Saskatchewan	Aa2	AA	A (positive)
Manitoba	Aa2	AA	A (High)
Ontario	Aa2	AA	AA (negative)
Quebec	A1 (positive)	A+	A (positive)
New Brunswick	Aa3	AA-	A (High)
Nova Scotia	A2	A	A (Low)
Prince Edward Island	A2	A	A (Low)
Newfoundland	A1	A	BBB

The rating agencies assign letter ratings to rank order. The major categories in descending order of credit quality are: Moody's: Aaa to C; S&P/Fitch: AAA to D; DBRS: R(H) to D. The "1", "2", "3", "High", "Low", "A" and "Positive" may modify ratings. A positive (or negative) trend or outlook (also known as "positive", "stable" or "negative"). For explanation of the above rating terms and symbols, please see www.moodys.com, www.standardandpoors.com, www.fitchratings.com or other rating agency websites.

Looking forward

Government intends to continue its focus on effective and affordable debt management through the following measures:

- use surpluses to continue paying down government direct operating debt;
- continued use of forecast allowances and the contingency vote to help ensure fiscal targets are met;
- review management of cash balances; and
- through on-going review and diligent management of capital spending, ensure the appropriate utilization of capital resources and a sustainable relationship between operating and capital budgets.

Transportation Investment Plan

British Columbia: The Pacific Gateway

British Columbia's transportation network is vital in developing the provincial economy over the next decade. Under the *BC Ports Strategy*, expanding the capacity and capability of the existing port terminal, rail and road systems are key elements to enhancing the province's potential as a gateway to and from international markets. As well, investments to help remove traffic congestion, ensure road safety, promote alternatives to road use and improve airport facilities are also key to developing BC as a desired tourism and recreation destination.

Under the Pacific Gateway initiative, the transportation investment plan and ports strategy together will help to further develop the province as a gateway to the world and the world's gateway into British Columbia.

Transportation Investment Plan

Budget 2005 updates and builds on the three-year transportation investment plans that were announced in the last two budgets. Amongst other priorities, the plan focuses on:

- improving road safety and reliability;
- expanding BC as a trade gateway to the world; and
- revitalizing the BC economy through a more-efficient, cost-effective and competitive transportation system.

Over the next three years, the updated transportation plan provides:

- $2 billion of additional provincial investment in transportation infrastructure; and
- $1.3 billion of additional investment leveraged through federal cost-sharing and partnerships

Transportation Investment Plan

($ millions)	2004/05 Update	2005/06	2006/07	2007/08	3-Year Total
New fuel tax revenues	**215**	**222**	**228**	**235**	**685**
Additional provincial investments:					
– Rehabilitation[1]	-	146	146	146	438
– Interior and rural side roads	75	75	75	75	225
– Airports and ports	15	12	10	10	32
– Border crossing infrastructure	36	45	14	20	79
– Okanagan Valley corridor and Okanagan Lake bridge	37	34	26	28	88
– Highway 1 – Kicking Horse Canyon	15	11	8	7	26
– Gateway initiatives (provincial share)	43	50	143	98	291
– *Sea-to-Sky* highway (provincial and partner shares)[2]	63	69	154	94	317
– Oil and gas roads	31	32	-	-	32
– Other highway corridors and projects	136	101	79	84	264
– Richmond-Airport-Vancouver Rapid Transit Project	53	82	-	118	200
Total provincial investment	**504**	**657**	**655**	**680**	**1,992**
Investments funded through contributions from other partners					
– Richmond-Airport-Vancouver Rapid Transit Project (contributions from the federal government; Greater Vancouver Transportation Authority; Vancouver Airport Authority; and private sector partner	62	232	457	455	1,144
– Border crossing infrastructure (federal contribution)	23	21	18	22	61
– Other contributions to projects	22	21	4	112	137
Total investments funded through contributions from other partners	**107**	**274**	**479**	**589**	**1,342**

[1] Excludes $146 million of rehabilitation spending in 2004/05, as this was already included in the previous 2002/03 plan.

[2] Includes share financed by P3 partner but for accounting purposes is included as part of provincial debt ($185 million over the 3 years 2005/06 - 2007/08).

with the private sector, local governments and other agencies.

Key elements of the plan include:

- inclusion of the estimated three-year funding commitments to the $1.7 billion (S 2003) Richmond-Airport-Vancouver rapid transit project (RAV) by the provincial, federal, local, airport authority and private funding agencies – the total provincial commitment to this multi-year project is $435 million;
- acceleration of cost-shared Gateway initiatives to enhance the movement of goods to and from seaports, airports and inter-modal terminals in the Lower Mainland;
- cost-shared border infrastructure investments to reduce delays for the trucking industry and improve security;
- continuation of major improvements to the *Sea-to-Sky* Highway; and
- investments to further improve road access for the oil and gas industry.

Transportation Investment Plan – Financing

The transportation investment plan is administered through the BC Transportation Financing Authority (BCTFA) and is based on the following principles:

- the province will dedicate revenue or other funding sources to finance its contributions;
- federal cost-sharing will be secured on all eligible projects and programs;
- additional transportation investment will be leveraged through partnerships with private partners; and
- provincial spending on new transportation investments will not increase taxpayer-supported debt of the BCTFA above $3.4 billion.

Since *Budget 2004*, a number of developments have been incorporated into the plan, such as the provincial commitment to the RAV project, accelerated Gateway initiatives and other priorities. In addition, the portion of the costs of the *Sea-to-Sky* Highway financed by the private sector is being included in the debt of the BCTFA under accounting policy requirements. These changes require additional provincial funding to support the transportation investment plan.

The larger-than-expected surplus in 2004/05 has allowed the government to make a number of strategic choices. These include paying down government direct operating debt while also reinvesting some of the surplus into long-lasting transportation investments over the longer term.

Last year's transportation investment plan had already assumed the recent $200 million of BC Rail proceeds distributed to the BCTFA in November 2004. To help finance additional capital investments in the updated three-year plan, a further $550 million will be dedicated to the BCTFA from the 2004/05 surplus. Together, these investments totaling $750 million will help ensure that the transportation investment plan remains fully funded over the next three years.

In order to transfer part of the government's surplus to the BCTFA in 2004/05, the Ministry of Transportation will be requesting a *Supplementary Estimate* to provide a one-time capital assistance grant of $550 million to be used by the BCTFA to reduce its capital debt requirements in 2004/05 and 2005/06. The effect of this grant, and of the earlier BC Rail distribution, will have no impact on the government's summary accounts bottom line, as the grant and distribution expenses will result in an offsetting revenue gain to the BCTFA.

Over the longer term, the government will be reviewing the transportation investment plan and if necessary, will make adjustments to ensure that the plan remains affordable.

Further information on the transportation investment plan can be found on the Ministry of Transportation website at: www.gov.bc.ca/tran/.

Outlook for Oil and Gas Prices in British Columbia

The petroleum industry is one of BC's biggest success stories. In 2003, industry invested approximately $3.8 billion in BC, and is forecast to contribute over $1.8 billion in government revenues from royalties, resource rents and leases in 2004/05.

The northeast area of BC is the only area of the province currently producing commercial quantities of oil and gas. However, considerable natural gas and oil potential remains in other areas of the province.

Government Initiatives

A number of economic fundamentals have contributed to the rapid growth of the BC oil and gas industry over the last three years. These include higher natural gas prices and strong North American demand for energy – natural gas in particular, despite high prices. In addition, a number of government initiatives specifically designed to promote BC's oil and gas potential have contributed to a positive investment climate.

The topic box in *Budget 2003* detailed BC's oil and gas resources and the Oil and Gas Development Strategy.

Further strategies and initiatives to be implemented over the next year include:

- a net profit royalty scheme and a new tight gas royalty to promote development of unconventional and remote resources in BC;
- continuation of the Resource Road Royalty Credit program which is expected to facilitate up to $60 million in road construction;
- up to $12 million expansion related to the Oil and Gas Training Centre of Excellence;
- staged updates to the Province's Cost of Service allowance;[1] and
- increased oil and gas related research funding.

Industry response and market trends

The oil and gas industry has responded quickly and positively to market signals and government initiatives. In 2003, 1,277 oil & gas wells were drilled, up 22 per cent from 2002 and almost double the 2002 actuals. After rising 4.8 per cent in 2003/04, natural gas production is forecast to increase 4.1 per cent in 2005/06 and 3.2 per cent in 2006/07.

Natural gas is an important element in the total North American energy picture, and it influences and is influenced by other energy sources. After more than doubling over the last decade, natural gas prices have remained high, inducing more

[1] The producer cost of service rebates government royalties to account for the producers' costs of transporting the Crown share of natural gas from the well to the plant inlet.

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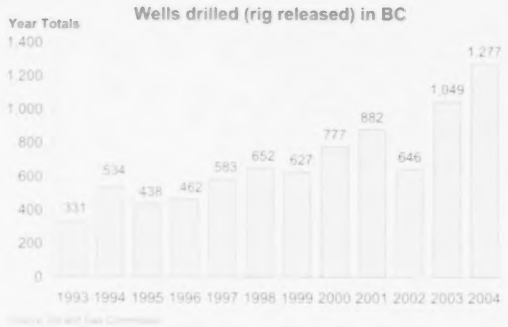

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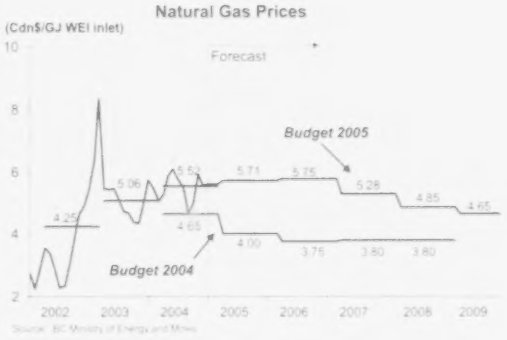
exploration and production throughout North America. Nonetheless, continental prices have increased as demand outstripped new production. US natural gas production estimates for 2005, range from flat (US Energy Information Administration) to declining production (Lehman Brothers – Cambridge Energy Research Associates), compared to approximately 1.0 per cent demand growth estimates. The North American natural gas supply-demand situation is expected to remain tight, supporting continued high prices. New natural gas sources (unconventional, frontier, or Liquefied Natural Gas) are not expected to be significant enough to have a meaningful impact on natural gas supply and prices in the near future.



Crude oil prices have increased steadily since December 2001, reflecting strong demand growth worldwide, particularly in China and other developing countries. Other contributing factors include a tight supply situation, concerns about economic and political situations in the Middle East, Venezuela, Nigeria, and the former Soviet Union, and recent supply disruptions caused by weather events (Hurricane Ivan). The future path of crude oil prices is a key uncertainty facing global energy markets.

Increases in crude oil and natural gas prices have generated some substitution to other energy sources - like coal or electricity – but not all consumers can easily or efficiently switch. Coal and electricity prices have also increased over the last three years, influenced by the interdependence among energy sources. For example, as an increasing amount of electricity supply is generated from natural gas fired plants, electricity prices will be influenced by natural gas price swings.

Government revenue from energy and mineral sources is forecast to be over $2.0 billion annually in the 2004/05 to 2007/08 period as the forecast assumes continued tight supply and strong demand, resulting in higher prices over the forecast horizon.

BC royalty revenues are very sensitive to natural gas prices. A price change of C$0.50 per gigajoule results in a $120 million to $170 million revenue change. The Ministry of Energy and Mines uses private and public organizations as well as internal analysis to forecast natural gas prices. As shown in the attached table, BC's royalty price forecast is based on averages of private sector forecasts, adjusted for:
(1) conversion from market hub to Canadian dollars per gigajoule at plant inlet; and
(2) conversion from calendar year basis to fiscal year basis.
The ministry's forecast is selected to be in line with these averages.

Natural Gas Price Forecasts

Private Sector Forecasts (calendar year)

	2004	2005	2006	2007	2008
GLJ HH US$/MMBtu (Jan 05)	6.06	6.20	6.00	5.75	5.50
Sproule HH US$/MMBtu (Jan 05)	6.53	7.32	7.03	6.41	5.78
GLJ Alberta AECO-C Spot CDN$/MMBtu (Jan 05)	6.78	6.60	6.35	6.15	6.00
Sproule Alberta AECO-C Spot CDN$/MMBtu (Jan 05)	6.83	7.66	7.32	6.60	5.84
GLJ Sumas Spot US$/MMBtu (Jan 05)	6.43	5.55	5.40	5.25	5.10
Sproule Sumas Spot CDN$/MMBtu (Jan 05)	7.91	7.82	7.58	6.86	6.10
GLJ BC Spot Plant Gate CDN$/MMBtu (Jan 05)	6.43	6.30	6.10	5.90	5.75
Sproule BC Plant Inlet CDN$/MMBtu (Jan 05)	6.24	7.06	6.82	6.10	5.34
GLJ Midwest Chicago US$/MMBtu (Jan 05)	6.08	6.30	6.10	5.90	5.65
Sproule Alliance Plant Gate CDN$/MMBtu (Jan 05)	6.52	7.36	7.02	6.31	5.59
EIA US$/MMBtu Henry Hub (Jan 05)	5.69	5.62	–	–	–
EIA US$/mcf Wellhead (Jan 05)	5.82	5.75	–	–	–
TD Economics HH FuturesUS$/MMBtu (Jan 05)	7.30	6.10	–	–	–
Scotiabank Group HH US$/MMBtu (Jan 05)	6.20	5.75	–	–	–
BMO Alberta Empress US$/MMBtu (Jan 05)	5.22	5.10	5.20	–	–
RBC Financial Group HH US$/MMBtu (Jan 05)	5.87	–	–	–	–
Orion Securities NYMEX $US/MMBtu (Oct'04)	5.80	–	–	–	–
Orion Securities AECO-C CDN$/Mcf (Oct'04)	6.70	–	–	–	–
Petro-Canada AECO-C CDN$/Mcf (Jan 05)	6.60	6.40	–	–	–

Private Sector Forecasts adjusted to $C/gigajoule at Plant Inlet (calendar year)

GLJ HH CDN$/GJ (Jan 05)	5.62	5.12	5.01	4.73	4.44
Sproule HH CDN$/GJ (Jan 05)	6.19	6.38	6.19	5.48	4.76
GLJ Alberta AECO-C Spot CDN$/GJ (Jan 05)	5.82	5.65	5.42	5.23	5.08
Sproule Alberta AECO-C Spot CDN$/GJ (Jan 05)	5.87	6.66	6.34	5.65	4.93
GLJ Sumas Spot CDN$/GJ (Jan 05)	6.94	5.26	5.19	5.02	4.85
Sproule Sumas Spot CDN$/GJ (Jan 05)	6.52	6.43	6.21	5.52	4.80
GLJ BC Spot Plant Gate CDN$/GJ (Jan 05)	5.52	5.40	5.21	5.02	4.88
Sproule BC Plant Inlet CDN$/GJ (Jan 05)	5.91	6.69	6.46	5.78	5.06
GLJ Midwest Chicago CDN$/GJ (Jan 05)	5.82	5.41	5.30	5.07	4.79
Sproule Alliance CDN$/GJ (Jan 05)	5.58	6.37	6.05	5.38	4.70
EIA CDN$/GJ Henry Hub (Jan 05)	5.55	4.82	–	–	–
EIA CDN$/GJ Wellhead (Jan 05)	6.91	6.23	–	–	–
TD Economics HH Futures CDN$/GJ (Jan 05)	7.15	5.01	–	–	–
Scotiabank Group HH CDN$/GJ (Jan 05)	5.79	4.62	–	–	–
BMO Alberta Empress CDN$/GJ (Jan 05)	5.67	4.97	5.09	–	–
RBC Financial Group HH CDN$/GJ (Jan 05)	5.39	–	–	–	–
Orion Securities NYMEX CDN$/GJ (Oct'04)	4.67	–	–	–	–
Orion Securities AECO CDN$/GJ (Oct'04)	5.52	–	–	–	–
Petro-Canada AECO-C CDN$/GJ (Jan 05)	5.43	5.25	–	–	–
NYMEX Forward Market converted to Plant Inlet CDN$/GJ (Jan'05)	5.79	5.85	5.61	5.15	4.77
Average one forecast per consultant minus high/low	**6.37**	**5.30**	**5.70**	**5.27**	**4.83**
Average all minus high/low fiscal only for current year	**5.96**	**5.95**	**5.77**	**5.30**	**4.85**

	2004/05	2005/06	2006/07	2007/08	2008/09
***Budget 2005* Natural Gas Royalty Price Forecast (Canadian dollars/gigajoule at Plant Inlet)**	**5.52**	**5.71**	**5.75**	**5.28**	**4.85**

GLJ: Gilbert Laustsen Jung Associates Ltd.

US EIA: Energy Information Administration

Health Care

First Ministers' Agreement on Healthcare – 2004

In September 2004, the provinces, territories and federal government agreed to a 10-year plan to strengthen health care. As a result of this agreement, British Columbia expects to receive a total of $5.4 billion in new federal health funding over the next ten years.

The First Ministers agreed the top priority for these funds is to improve access to care and reduce wait times where they are longer than medically acceptable. Although every jurisdiction will be responsible for establishing its own priorities across the continuum of health services provided to their citizens, the First Ministers also agreed that cancer and heart surgeries, diagnostic imaging, joint replacement and sight restoration services were important priority areas to be considered. The First Ministers also recognized that improving access to care will require cooperation among governments, the participation of health care providers and patients, and strategic investment in such areas as:

- increasing the supply of health professionals (e.g. doctors, nurses and pharmacists);
- enhancing primary care;
- delivering effective community and home-based services; and
- effective health promotion, disease prevention and public health services.

In addition, First Ministers agreed the implementation of a national pharmaceutical strategy would improve access for all Canadians to important classes of drugs while providing opportunities to take advantage of economies of scale and initiatives which would improve prescribing and minimize adverse events related to drugs.

The Ministry of Health Services' service plan objectives and strategies reflect the commitments and priorities of the First Ministers in the 10-year plan. Strategic investments in priority areas across the continuum of health services will be a highlight of the next three years. Examples of areas in which the ministry and health authorities will be working to improve access and services beyond the five key First Minister priority areas include:

- innovative strategies to enhance health promotion and disease prevention by focusing on 5 key risk factors for disease;
- increased access to mental health and addiction services;
- continuing to build capacity across the province for access to all acute care services including life support services such as renal dialysis;
- enhancing the effectiveness of primary care;
- delivering effective community and home-based services with an emphasis on new strategies for end of life care;
- increased options for frail seniors in the supportive housing, assisted living and residential care sector;
- strengthening patient safety initiatives; and
- optimizing the supply of health care professionals across all disciplines.

This increase in capacity will build on the significant success in enhancing access that has already occurred. The new federal funding commitment, which over 10 years represents approximately 4 per cent of the expected spending on health services, is not the panacea to our challenge of funding the health care system, but is an improvement to what BC would otherwise have faced. British Columbia has the advantage of an efficient, responsive health sector that welcomes the challenge of improving value for the citizens of British Columbia.

At the time of printing *Budget 2005*, the federal government had not finalized the funding allocations and is not likely to until very late in the 2004/05 fiscal year. Receiving funding late in the year makes it virtually impossible to spend it responsibly for the purposes intended. Accordingly, the 2004/05 funding will be deferred to the subsequent three years and invested in improving wait times across cancer and renal treatment and public health programs.

In addition to the operating funding discussed above, the First Ministers' agreement is also expected to provide British Columbia with an additional $66 million in Medical Equipment Funding in 2004/05. The federal government provided BC with $200 million in Medical Equipment Funding in 2002/03, and that money is being spent over the three years ending 2005/06. The $66 million expected from the First Ministers' agreement will be spent in 2006/07 and 2007/08 on strategic investments in equipment that improve patient care and workplace health including CT and MRI scanners, anaesthetic machines, laboratory equipment and patient beds and lifts.

Child Care

In the fall 2004 federal Throne Speech, the federal government committed to work with provincial and territorial governments to enhance early learning and child care across Canada. British Columbia's children and families will benefit from a new Early Learning and Child Care Agreement (ELCC Agreement) with the federal government in 2005/06 and subsequent years.

Provinces and territories expect to see a $5 billion federal government funding commitment over five years to assist with this work, with British Columbia receiving approximately 13 per cent of those funds, or $650 million over five years.

In anticipation of these funds, provinces, territories and the federal government have agreed on four principles to guide the $5 billion investment in a national vision of early learning and child care:

Quality: High-quality early learning and child care services are grounded in leading practices, with an appropriate complement of qualified staff.

Universally inclusive: Universally inclusive means early learning and child care services are open to all preschool children, including children with special needs, aboriginal children, and children with different cultural and linguistic circumstances.

Accessible: Early learning and child care services are broadly available and affordable.

Developmental: Developmental early learning and child care services promote healthy development and contribute to improved lifetime outcomes in the areas of social, emotional, physical and cognitive development.

In order to better meet the needs of children and families in British Columbia, government has adopted three additional principles:

Choice/Flexibility: Parents choose a service that works best for them and their child's specific needs, including care outside of traditional hours.

Targeted Investment: A cost-effective system that focuses investment on those most in need.

Integrated Services: Child care is available in schools, is community focused, and is integrated with other community services such as early childhood development programs.

These principles are consistent with British Columbia's vision for a sustainable child care system in which families can choose from a range of affordable, safe, quality child care options that meet diverse needs.

The new ELCC funding will be targeted to groups that will benefit most from improved access to quality child care programs and services, including lower income families, aboriginal people, and children with special needs.

Government is currently examining child care options that build on the federal and provincial principles, including:

- Improving the quality and diversity of child care through professional development and training opportunities for service providers;
- Targeting funding to the families that need it most by expanding the Child Care Subsidy program;
- Supporting stable, sustainable child care spaces with capital funding for infrastructure; and
- Working with partners such as schools to ensure parents can choose services that meet their needs in their own community.

A funding profile for the new ELCC Agreement – total dollars available and annualized amounts for each province and territory – is expected to be set out in the upcoming federal 2005/06 budget. Due to the preliminary and tentative nature of this funding arrangement, British Columbia's estimated share of this new federal funding is not included in *Budget 2005*. Once the federal government confirms the new ELCC funding and details of the new ELCC agreement are known, a *Supplementary Estimate* will be presented to the Legislature to provide the budget for these programs.

Children and Youth with Special Needs

It is estimated that up to 15 per cent of children in British Columbia (or approximately 200,000) have a developmental disability, mental health condition or learning disability. Of these children, approximately 25 per cent (or 52,000) have significant special needs that affect the child's functioning in their home, school and community.

These children and their families require significant medical, health, educational and social supports. Government currently spends over $500 million annually on various programs and services that support these children and their families. These programs and services are provided through three key ministries: Children and Family Development, Health Services, and Education.

Budget 2005 allocates additional resources for programs and services for children and youth with special needs and their families. A key expectation that accompanies the increased funding is that service providers, regardless of which sector they are funded through, will work collaboratively with other providers in moving towards a more integrated system of service delivery.

By 2007/08, government will increase spending on programs and services for children and youth with special needs and their families by $134 million.

The additional funding will be used to:

- Provide new and enhanced services for children who have developmental behavioural conditions including Fetal Alcohol Syndrome Disorder (FASD) by:
  - facilitating the development of an integrated diagnosis and assessment capacity for these conditions, including FASD, building on the process developed for autism, using the Provincial Health Authority for centralized functions and the Health Authorities for the delivery of assessment services. This will improve the timely and reliable assessment and diagnosis for children affected by these conditions (up to 1,500 children are expected to be assessed by 2007/08); and
  - providing new intervention and support services including cognitive behavioural intervention, positive behavioural support, and assistance to develop functional life skills and respite through community agencies and service providers (up to 1,000 children are expected to benefit by 2007/08).
- Reduce waitlists in direct intervention services and key family support services, including:
  - enhancing supported child development programs for children over 6 years of age (i.e. assessment, training and individualized specialized support to assist children with special needs to participate in child care settings) to benefit up to an additional 250 children by 2007/08;
  - an additional 2,500 children will access intervention and therapies (i.e. occupational therapy, physiotherapy, speech language pathology and behavioural intervention services) by 2007/08; and
  - providing respite care for up to an additional 800 families by 2007/08 through direct funding and other contracted respite services.
- Enhance specialized supports for children and youth with sensory impairment conditions or complex health needs for over 600 children by 2007/08, including:
  - providing additional nursing assessment and consultation services for children with complex health needs;
  - providing mobility orientation training for blind and deaf blind pre-school children; and

- providing interpreters and counseling services to assist deaf, deaf blind or blind youth transitioning to adulthood.

- Enhance services to children and youth with special needs in the education system:
  - increased funding for school boards to provide programs and supports for students with special needs;
  - funding to recognize increased service levels needed when students enroll in a school district during a school year; and
  - additional funding to enhance early intervention and inter-agency collaboration for students with complex needs.

These new funds will enable children with special needs and their families to have improved access to assessment, intervention and support when they are young and support their success in education programs when they are ready for school.

Government is committed to enhancing British Columbia's system of support for children with special needs by delivering services that are timely, of high quality and responsive to family needs.

Homelessness

Premier's Task Force on Homelessness, Mental Illness and Addictions

Premier Gordon Campbell has convened a Task Force to address the challenges of homelessness, mental illness, and addictions in British Columbia communities. It is chaired by the Premier, and includes seven mayors from across the province and three provincial Ministers.

The Task Force is working to provide better co-ordination of resources in communities and to develop innovative strategies to give people with addictions and mental illness the opportunity to move from temporary shelters to long-term, stable housing.

Overall, government will provide an additional $48 million over the next three years for emergency shelter programs, housing and support services for people who are homeless. Incremental funding is allocated among the following ministries that provide these programs and services: Community, Aboriginal and Women's Services, Health, Human Resources and Children and Family Development.

In response to the immediate concerns raised by the Task Force in October 2004, the province is spending an additional $2.8 million in 2004/05 and over $5 million annually beginning in 2005/06 to increase emergency shelter capacity across the province by 153 beds to a total of 861 beds, provide 198 additional cold/wet weather beds for a total of 395 beds, keep cold/wet weather beds open for an additional month over the winter, provide reserve funding for additional beds in the event of extreme cold weather, and funding for shelters to purchase equipment and supplies. Additional funding of $0.55 million annually has also been allocated to provide for an additional 19 beds for youth under 19 years of age, increasing the available number of provincially funded youth beds by 37 per cent.

In December 2004, the Task Force announced that additional provincial funding would be provided for four housing projects in Vancouver, Surrey and Nanaimo. These projects will provide shelter and support services for people who are homeless. Other projects are being developed for the communities of Victoria, Kelowna, Prince George, and New Westminster. *Budget 2005* provides incremental funding of $29 million to support the construction and ongoing operation of these projects and related support services.

Breaking the Cycle of Homelessness

Despite support for more than 800 emergency shelter beds and 2,600 housing units targeted towards individuals who are homeless, or at risk of becoming homeless, homelessness continues to be an issue for communities around the province.

The provincial vision is to break the cycle of homelessness by providing adequate and appropriate housing and support services. The goal is to assist people to move beyond temporary shelter to more secure housing, to gain greater self-reliance, and to achieve appropriate employment. Recent research

Commitment to Address Homelessness

($ millions)	2004/05	2005/06	2006/07	2007/08	Total
Budget 2005:					
Emergency shelter beds	2.8	5.1	5.1	5.1	18.1
Youth beds	-	0.6	0.6	0.6	1.8
Supportive/transition housing projects	5.0	10.1	2.5	11.1	28.7
Total	**7.8**	**15.8**	**8.2**	**16.8**	**48.6**

indicates that the most effective approach for assisting persons that are homeless or at-risk of homelessness is the continuum of care model that emphasizes the delivery of supportive housing and integrated, coordinated support services.

This approach envisions better integration of existing services, enhancement to narrow gaps in the continuum, and new services promoting self-reliance. The goal is to provide housing first and then to surround the individual or family with the necessary supports and services to assist them in moving beyond temporary shelter to more secure housing.

The government has worked to address homelessness by building strong partnerships with the federal government, local governments and the non-profit housing sector around this issue. Under the *Affordable Housing Program Agreement* signed in 2001, which included $66.7 million in federal funding, the province will provide $29.7 million annually to subsidize the costs of 3,900 units built under the Provincial Housing Program, the Independent Living British Columbia Program and the Community Partnerships Initiatives funding stream. As well, the federal and provincial governments have committed $42 million each ($84 million combined) for affordable housing under the second phase of the *Affordable Housing Program Agreement*.

This year the provincial government is spending $80.4 million on subsidized housing, the highest level of funding ever in British Columbia.

Transparency and Openness in Government Budgeting and Reporting

British Columbia is generally recognized as a leader in enhancing transparency and openness in its budgets and other related reports.

Full Compliance with GAAP

Among the most important achievements for the province is the fact that British Columbia's financial reports, such as budgets and quarterly updates, are now fully consistent with generally accepted accounting principles (GAAP). In fact, in February 2004, BC was the first province to introduce a balanced budget that by law must comply with GAAP. This means that all provincial finances are fully, accurately and consistently reported, ensuring that BC remains a Canadian leader in sound financial disclosure.

An accounting policy advisory committee was established in mid-April 2002 to guide BC in fully adopting GAAP. The seven-member committee was originally mandated to advise Treasury Board through March 31, 2004. While the move to GAAP is complete, the committee's mandate has been extended to March 31, 2006 to help government keep current with emerging accounting standards from the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Comprehensiveness in Reporting

The move to GAAP means more comprehensive reporting in at least two important ways:

- full consolidation of the Consolidated Revenue Fund (CRF) with the taxpayer-supported Crown corporations and agencies; and
- expansion of the government reporting entity to fully include school districts, universities, colleges and health care organizations.

In the past, financial reports were focused on the CRF, which is not GAAP compliant.

Comprehensiveness has also been improved with the focus on three-year planning. Not only is a detailed three-year fiscal plan presented with the annual budget, a report on the progress of, and updates to, the three-year plan are provided in a mid-year update through the province's first quarterly report.

Key budget deliverables have been expanded to include not only the three-year fiscal plan and annual and supplementary estimates, but also the three-year government strategic plan and the three-year service plans for each ministry and Crown corporation. The same is true of year-end reporting: service plan reports for government as a whole, as well as for each ministry and Crown corporation, are released with the *Public Accounts*.

This integrated reporting of three-year fiscal and service plans provides detailed information on the goals, priorities and actions of government, as well as how they will be financed, and how progress and success will be measured. Similarly, the year-end reports (*Public Accounts* and *Service Plan Reports*) disclose actual financial and performance service results; that is, the extent to which the goals, priorities and actions identified in the three-year fiscal and service plans were achieved.

Timeliness in Reporting

Regular and comprehensive reporting is of limited use unless it is timely as well. British Columbia's fixed budget date (the third Tuesday in February) ensures that the government's three-year fiscal plan is known well in advance of the start of the first year of the plan. Timely release of planning documents is further ensured by the requirement that the government strategic plan as well as the service plans for all ministries and Crown corporations be released on budget day.

Legislation also ensures that quarterly reports on the Province's fiscal situation are released in a timely fashion: no later than September 15 for the first *Quarterly Report*; no later than November 30 for the second *Quarterly Report*; and, no later than February 28 (with typical release at the time of the budget) for the third *Quarterly Report*.

Year-end reporting is also done on a timely basis in BC. Along with Saskatchewan and Alberta, BC is a leader in the timely release of its *Public Accounts*; for example, all three provinces released their 2003/04 *Public Accounts* on June 29, 2004, months earlier than the federal government and other provinces.

Year-end performance reporting in British Columbia is also subject to legislated deadlines: annual service plan reports for each ministry and Crown corporation must be released within five months of the fiscal year end (typically, by August 31). In practice, these reports are released with the *Public Accounts*, well in advance of the legislated requirement. In the past, annual reports for some government organizations were delayed for two years or more.

Increasing Transparency through Quality and Consistency in Disclosure

The information provided in financial and performance reports is most useful when it is of high quality and consistency. Efforts aimed at improving the information provided include:

- the full disclosure of material assumptions, policy decisions and risks underlying economic and fiscal estimates and forecasts;
- the use of consistent formats and reporting structures to facilitate comparison from one report to the next;
- the provision of sufficient information to allow actual results to be readily compared to targets and objectives, in order to enhance accountability; and
- the requirement that budget documents include an attestation statement signed by the Secretary to Treasury Board as to the completeness of disclosure.

An excellent example of efforts to improve transparency is the adoption of the BC Performance Reporting Principles. In October 2003, the BC government, the Public Accounts Committee and the Auditor General agreed on a set of reporting principles to form the basis for how service plans and annual service plan reports are written and assessed. These principles, which are now incorporated in the guidelines to ministries and Crown corporations, are as follows:

- Explain the public purpose served.
- Link goals and results.
- Focus on the few critical aspects of performance.
- Relate results to risk and capacity.
- Link resources, strategies and results.
- Provide comparative information.
- Present credible information, fairly interpreted.
- Disclose the basis for key reporting judgments.

(See http://www.bcauditor.com for additional information on the reporting principles).

Summary

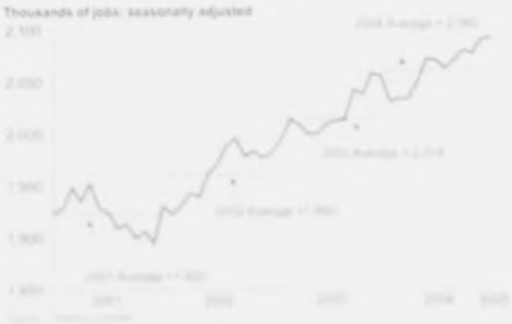
BC has come a long way in improving its financial and performance reporting. From full compliance with GAAP, through the timely release of detailed three-year fiscal and service plans, to numerous enhancements to the quality and consistency of the information provided, BC now takes its place as one of leading jurisdictions in Canada in terms of budget transparency and openness.

British Columbia's Strong and Vibrant Economy

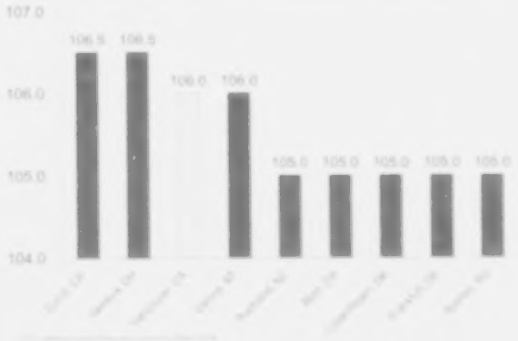
Since 2002, the provincial government has followed a consistent, but ambitious strategy to re-energize the provincial economy. The strategy continues to reap dividends. In 2004 the economy fired on all cylinders and growth is estimated at 3.3 per cent.

Job creation was also strong in 2004. Employment growth was 2.3 per cent, the third highest in the country. Since December 2001, British Columbia has had the highest rate of job growth of any province in Canada.

Significant employment gains since 2001



1st in North America, 3rd worldwide for quality of life



The Plan has worked to restore confidence in British Columbia's economic future. The provincial economy is expected to grow by 3.1 per cent in 2005, the second highest in the country. In the coming year the government will work to maintain and build on this newfound confidence to ensure British Columbia's economy reaches its full potential.

Stable and Competitive Policy Framework

Responsible Fiscal Policy and a Competitive Tax Structure

In 2004/05, the government will meet its balanced budget target with a forecast surplus of $1.4 billion and the new three-year fiscal plan includes balanced budgets in 2005/06, 2006/07 and 2007/08. The achievement of a stable and sustainable fiscal policy is a basic requirement to build and maintain consumer and investor confidence.

BC's personal and business taxes are now competitive. The overall level of taxes for BC families is generally the second lowest in the country. The province also has the lowest personal income tax rates in the country for the lowest two tax brackets, meaning a fair 'first bite' for government. Changes to restore investor confidence include:

- lowering the general corporate income tax rate by 10 per cent;
- eliminating the corporation capital tax for general corporations;

- introducing a sales tax exemption for production machinery and equipment; and
- implementing sector specific tax reductions, such as new incentives for digital animation and new media productions.

Since *Budget 2004*, the fiscal situation has improved significantly and the government was able to meet its commitment to return the provincial sales tax rate to 7 per cent. This will return $270 million annually to British Columbians.

Deregulation

British Columbia's groundbreaking deregulation initiative has surpassed its one-third reduction target, reinforcing the province's commitment to developing an easier and more efficient regulatory environment for businesses. A cross-government count threeyears ago yielded a total of 382,139 regulations on the books in British Columbia. Sincebeginning the deregulation initiative, the government has eliminated 173,000 regulatory requirements and achieved a net reduction of morethan 143,000 or 37 per cent.

The government is committed to maintaining a net percent increase throughout 2005/06 and will continue to identify further regulatory reduction and reform opportunities.

Regulatory Requirements and Results to June 2004

	Requirements June 5, 2001	Net Changes to June 2004	Requirements June 2004
	Number of Regulations		
	1,470	-647	823
	4,558	-1,161	3,397
	8,595	-98	8,497
	10,361	-2,276	7,985
	71,478	-19,480	51,998
	27,941	-7,140	20,801
	11,808	-4,804	7,004
	47,382	-11,796	35,586
	17,988	-9,023	8,965
	12,756	-5,734	7,022
	2,585	-1,661	924
	4,414	-1,605	2,809
	13,418	-2,897	10,521
	40,504	-11,991	28,513
	30,686	-10,716	19,970
	10,886	-3,611	7,275
	3,171	-1,077	2,094
	7,881	-2,731	5,150
	2,746	-1,111	1,635
	382,139	-173,139	209,000

The focus will also be on improving quality to create a regulatory environment that is more effective, less costly, results-based and more flexible to promote competitiveness and innovation. The government will continue to seek the input of the business community on how best to achieve SMART (Sound, Modern, Accountable, Results-based and Transparent) regulation – a comprehensive and innovative approach to regulatory reform.

Key achievements include:

- Streamlined liquor licensing and related administration to improve public safety and reduce red tape for businesses;
- Amended the *Workers' Compensation Act* to be more flexible and responsive to the needs of workers and employers;
- Reviewed over 3,000 fees and licenses across government, many affecting small businesses. Forty three percent have been eliminated, consolidated, or devolved;
- Introduced a new *Securities Act* to replace the existing overly prescriptive securities law requirements with a more streamlined and results-based approach to securities regulation;
- Modernized and streamlined real estate legislation that will ensure that the real estate sector can more quickly respond to changes in the marketplace in order to serve consumers better; and
- Passed a new *BC Safety Act* that modernizes the BC safety system by streamlining its regulatory environment and reducing the number of regulations, creating flexibility to achieve safety objectives at lower costs.

Infrastructure

The government continues to make progress on last year's multi-year transportation infrastructure plan. The plan has been updated and now calls for provincial spending of $2 billion for the three years to the end of 2007/08. In addition, another $1.3 billion will be invested through federal cost-sharing and partnerships with private partners and local

governments, including cost-shared border crossing improvements.

Major capital projects are underway across the province. A proposal call was issued for the $130 million Park (10-Mile) Bridge Project in Kicking Horse Canyon and construction continued on the Yoho (5-Mile) Bridge Project. Progress was also made on the $52 million Nisga'a Highway Project, as year six of the seven-year project was completed.

Bids from proponents interested in constructing the new Okanagan Lake Bridge are currently under review. This more than $100 million project will improve safety, reduce traffic congestion and will create a more efficient transportation corridor in the Okanagan.

Construction is now underway on a series of improvements along the *Sea-to-Sky* Highway and contracts for the remainder of this $600 million improvement project will be issued shortly. The upgrades will improve the highway's safety, capacity and reliability, both in support of the 2010 Winter Olympics and for the long-term future of corridor communities.

Upgrades to roads at Ootsa Lake, Fort St. James, Vanderhoof and Prince George have supported the expedited removal of beetle-killed timber from those areas. Continued investments on Highway 37 are strengthening and resurfacing this critical route to support the heavy traffic generated by the province's mining industry.

Substantial investments in bridge replacement and paving have kept 76 per cent of the province's main highways in good condition, 45 per cent of the side road system is now in good condition. Rehabilitation of these roads, which are so important to rural and Northern economies and communities, will continue.

The $1 billion BC Rail Investment Partnership was concluded this past year, and British Columbians are already benefiting from it. The partnership has eliminated BC Rail's debt, opened the door for a new tourist passenger service to be developed and begun streamlining freight rail operations in our province.

Part of the proceeds from the BC Rail partnership will be used to fund a $135 million Northern Development Initiative. Legislation to establish a trust and board has now been passed in the legislature, and progress is being made on setting up the required organizational infrastructure. The government remains steadfast in its commitment that the Northern Development Initiative will be managed by northerners for northerners.

This past year, BC Ferry Services Inc. marked its first anniversary as an independent, commercial company. Since then, it has selected a proponent to build three new Super-C Class vessels through a contract worth $325 million. The ships will be built at no cost and no risk to B.C. taxpayers, an important milestone in the progressive development of our province's coastal ferry service. The new Super C-class vessels are among the first of BC Ferries' *Newbuild* program, which will see an additional 19 vessels built over the next decade and a half. The vast majority of these vessels will be small or intermediate open car deck ferries.

The Richmond-Airport-Vancouver Rapid Transit Project (RAV) is moving ahead, providing B.C. with a tremendous opportunity to enhance our economy and improve our environment. *TransLink* has selected a preferred proponent, and the provincial government has authorized contributions of $435 million. Other partners, including *TransLink*, the Vancouver International Airport and the federal government, have made similar commitments for a total investment of $1.9 billion (2003$). This is a generational agreement that will create substantial new private sector investment and 6,500 person-years of employment, while reducing congestion and improving air quality. The private sector proponent will also invest in and operate the line, which will improve access and quality of life for commuters and residents in Greater Vancouver.

The government's Transportation Investment Plan is facing increasing worldwide prices for commodities such as steel. The government is responding with a renewed commitment to the use of innovative partnerships as a means of ensuring British Columbia's infrastructure needs are met in a responsible and sustainable manner. These partnerships protect taxpayers by transferring risk, bring a fresh perspective and secure additional investment that might otherwise not be available.

The strength of the provincial economy, combined with continued improvements in the working relationship with the federal government, is creating new opportunities to advance high priority infrastructure projects. This represents a critical step in building the economy for the future.

Strategies for Key Sectors

The government continues to make progress in revitalizing and fostering renewed growth in key sectors of the economy.

Forestry

The performance of the forest sector in 2004 was encouraging, but challenges remain. Over the next year, the government will move ahead with revitalizing the industry and responding to forest threats including Mountain Pine Beetle (MPB) and fire. Four main policy thrusts are to:

- diversify the industrial base to use more MPB timber;
- replant Crown areas lost to pest and fire;
- work to manage wildfire risk; and
- ensure access to rural recreation opportunities.

In 2003, legislation was passed that fundamentally changed the way the forest sector is managed. These changes include the reallocation of timber rights and market-based policy reforms to forest tenure and revenue administration. The objective is to create a more competitive, dynamic forest industry that contributes sustainable well-paying jobs to BC's economy.

During 2004/05, market-based tenure reforms were implemented across the province with the result that transfers, sub-divisions and consolidations are easier, impediments to log flows have been removed and there are no longer policies that require the harvest of uneconomic wood.

Progress was also made in moving to a market-based stumpage system with the launch of market-based pricing for the Coastal region on February 29, 2004. The market-oriented changes, coupled with improved markets for wood products, resulted in strong growth in Coastal timber harvesting in 2004. Interior harvesting also increased.

During 2004, the implementation of the timber reallocation process continued. Company takeback volumes are now being translated into specific areas on a licence-by-licence basis.

To assist in the transition to a more competitive, flexible industry, the government recently announced its intention to add $50 million to the BC Forestry Revitalization Trust. In addition, $50 million will be set aside for compensation to cover the cost of improvements made by forest companies to Crown land that will be taken back as part of tenure reallocation.

The *Forest and Range Practices Act* (FRPA) and its regulations were brought into force on January 31, 2004. The Act creates a streamlined, science-based, results-oriented regulatory approach to conserve forest and range resources, protect human health and key habitats and to ensure effective enforcement. By focusing on practices on the ground, the regulatory requirements from the existing *Forest Practices Code* were reduced by 55 per cent. To ensure a seamless transition, agreement has been reached with industry to extend the timelines for FRPA implementation to December 31, 2004.

Negotiation of Forest and Range agreements with First Nations are continuing. To date in 2004/05 another 30 offers have been made and 17 agreements have been completed. Since September 2002, 39 Forest and Range agreements have been concluded.

Throughout 2004, BC continued to work towards the resolution of the softwood lumber dispute. Dispute-related legal processes will continue until a resolution is reached.

Over the past few years, the forests of BC have faced a two-pronged attack. The last two fire seasons have left 500,000 hectares charred. In addition, the outbreak of the Mountain Pine Beetle (MPB) has already affected 7 million hectares of BC's Interior and over the next decade is expected to damage or destroy 80 per cent of the Province's 12 million hectares of mature lodge-pole pine. At the end of 2004 there was over 280 million m³ of beetle-killed wood province wide.

To address this infestation, the Chief Forester increased the Allowable Annual Cut (AAC) by 4.9 million m³ in the Prince George, Lakes and Quesnel Timber Supply Areas. To help maximize the return for this diminishing value resource, the government will encourage new uses for the beetle-killed volume. Larger volumes will be made competitively available to non-lumber producers in areas with high infestation levels. Smaller opportunities, open to a full range of interests will also be offered. Diversifying the uses of MPB wood will create economic opportunities and support the economic health of affected communities.

Maintaining the forest land base is critical to ensuring a stable timber supply and healthy communities that rely on the flow of benefits from productive forests.

Most of the beetle-killed trees will remain usable for five to fifteen years and plans are being developed to harvest and salvage many of the affected areas by licensees. Other affected areas are on poor quality growing sites or too remote to warrant investment.

The government will allocate $85 million through 2007/08 for a long-term, large-scale, reforestation program to speed the recovery from these natural disasters as quickly and efficiently as possible.

Following the 2003 forest fire season, an independent review by Gary Filmon identified actions necessary to reduce fire hazards and improve fire preparation and response. Government accepted the report's recommendations and in 2004/05 increased fire-fighting resources with two additional air tankers and seven additional unit crews, initiated fuel management pilots and funded community wildfire protection plans.

The government will commit $51 million over the next three years for fuel management and the ongoing implementation of the Filmon report recommendations. This will reduce the risk of extreme fire seasons such as those that occurred in 2003 and 2004.

Energy Development

In 2003, the government's energy plan was introduced. The plan was based on four cornerstones:

- low electricity rates and public ownership of BC Hydro;
- secure, reliable supply;
- more private sector opportunities; and
- environmental responsibility and no nuclear power source.

In October 2004, the government issued a Report Card on Progress for the implementation of the Energy Plan. The report card showed significant progress had been made on each of the four key goals.

For the first time in a decade, the BC Utilities Commission (BCUC) thoroughly reviewed BC Hydro's costs and revenue needs. After conducting a public process with substantial opportunities for stakeholder input, the BCUC approved a 4.85 per cent rate increase. BC Hydro's customers were rebated the difference from the April 1, 2004 interim rate increase of 7.23 per cent. Low electricity rates benefit consumers and give BC an edge in attracting new businesses.

In September 2003, BCUC ruled that that the proposed Vancouver Island Generation Project was not the most cost-effective means to meet Vancouver Island's power needs. BC Hydro subsequently issued a Call-for-Tender and the Duke Point Power Limited Partnership was the successful proponent for a 250 MW gas-fired facility. BCUC is conducting a review of the electricity purchase agreement and a decision is expected in February 2005.

The BCUC also recently approved a 10-year $2.8 billion capital plan for the BC Transmission Corporation, a publicly owned Crown entity.

The government will develop an Alternative Energy Strategy to complement the *2002 Energy Plan*. The strategy will embody initiatives to advance emerging new energy resources, encourage innovation in energy technology, and continue British Columbia's leadership in energy efficiency and conservation.

To encourage environmentally-friendly energy generation, a school property tax exemption will be available for penstocks and related infrastructure that are part of qualifying hydro projects. Penstocks are pipe or tunnel systems that carry water to the generating turbines in a hydroelectric plant, but do not include dams.

In 2004/05, the following independent power producers achieved or are expected to achieve commercial operations:

Power Producer	Source
Weyerhaeuser Kamloops Pulp Mill	Biomass
Rutherford Creek	Small Hydro
Furry Creek	Small Hydro
McNair Creek	Small Hydro
Marion 3 Creek	Small Hydro
South Sutton	Small Hydro
Canfor Prince George Pulp Mill	Biomass

BC Hydro is on track to meet its goal that 50 per cent of BC's future power needs will be from clean energy sources. Hydro anticipates achieving a combined total of 2,530 gigawatt hours of clean energy and efficiency improvements in the next ten years, representing 52 per cent of incremental power needs.

Oil and Gas

British Columbia's Oil and Gas Development Strategy, announced in 2003, is designed to create a growing, dynamic oil and gas industry that is positioned to take full advantage of the province's abundant oil and gas resources. The Strategy has four key objectives:

- improve resource and community road infrastructure;
- target royalty incentives to encourage increased exploration and open up new basins, promote year-round activity, and maximize resource extraction of unconventional resources;
- reduce and streamline regulation; and
- develop and expand the province's service sector supporting the oil and gas industry.

There continues to be considerable optimism about the future of BC's oil and gas sector. Continued high commodity prices for oil and natural gas, combined with strong investor confidence in BC's resources and its fiscal and regulatory environment are creating high paying jobs and business opportunities.

The government, industry, and other stakeholders are working together to ensure that BC residents can take advantage of these opportunities.

The Alaska Highway Pipeline presents a unique opportunity for the energy sector in BC. The pipeline, if constructed, will be one of the largest capital projects of the 21st century. Construction of the pipeline would provide significant benefits in terms of employment, GDP growth, and new opportunities for resource development.

Finally, the development of an oil pipeline from Edmonton to the mid-coast of British Columbia, in either Kitimat or Prince Rupert, would create additional jobs and investment along the proposed pipeline route.

The third phase of the Oil and Gas Development Strategy (OGDS III) is now being implemented and includes the following new elements:

- Amending the Producer Cost of Service allowance in the natural gas royalty system to rationalize administration and promote investment.
- An Interior Basins Strategy to improve the understanding of the petroleum geoscience of BC's interior oil and gas basins and assist in identifying opportunities for investment and development of these high potential basins.
- A net profit royalty for unconventional resources that will be introduced in 2005 to recognize the risk associated with developing these resources.

The government is also undertaking geoscience initiatives, such as identifying new aggregate sources and assessing tight, deep and shale gas potential in NEBC. These initiatives are designed to identify, stimulate and facilitate development of under-explored and unconventional resources.

The Oil and Gas Resource Road Strategy was launched with an initial investment of $10 million for the public roads in NEBC.

This initiative to improve access to the resource was complemented by the Sierra Yoyo Desan (SYD) Public Private Partnership. This project will see $38 million invested into the SYD road near Fort Nelson. In addition, the resource road royalty credit program, which makes credits available to companies constructing, upgrading and maintaining road infrastructure in support of resource exploration and extraction, will be extended for an additional year with an additional $30 million in funding.

The government continues to work with industry to reduce the regulatory burden while meeting its environmental objectives. The Industry/Government Best Practices Steering Committee has had numerous successes, resulting in annual savings to industry of over $20 million per year. The Oil and Gas Regulatory Improvement Initiative (OGRII) will continue through 2004/05 and into 2005/06, with the goal of improving BC's oil and gas permitting and compliance through regulatory streamlining and results-based regulation where appropriate.

The government has developed a First Nations Engagement Strategy for British Columbia and is currently negotiating with the Treaty 8 First Nations to improve operational certainty in Northeast BC.

The success of the Oil and Gas Development Strategy is apparent. Industry investment in Oil and Gas is forecast to increase to $4 billion in 2004/05, from $3.8 billion in 2003/04 and only $1.8 billion in 2000/01. The number of wells drilled in BC is expected to increase to 1,328 in 2004/05 from 1,281 in 2003/04. This compares to fewer than 981 in 2000/01.

Proven reserves are up and the oil and gas industry now generates more than $2 billion annually in direct revenue to government – the largest amount of any resource sector.

These successes and new opportunities will further reinforce BC's reputation as the province of choice for new natural gas exploration and development in Canada.

Mining

The government's changes to the tax and regulatory system, combined with rising commodity prices, have led to resurgence in British Columbia's mining industry.

Exploration expenditures have soared from a low of $29 million in 2001 and exceeded $130 million in 2004, well on the way to meeting the target of $200 million annually required to sustain the industry. Four mines opened or re-opened in 2004, and a proposed new coal mine near Tumbler Ridge was recently granted an environmental assessment certificate. The certificate signifies that the project has adequately addressed environmental, First Nations and socio-economic concerns. Plans are for the new Wolverine Coal Mine to begin production in late 2005.

Staking of mineral claims is up significantly. From January to November 2004, mineral claim units recorded stood at 46,802, an increase of 55 per cent compared to the same period in 2003. This clearly demonstrates that grassroots exploration is back in BC and that people once again see the opportunities available from BC's rich geology.

Two recent initiatives build on the gathering momentum in mining. First, on January 12, 2005 Mineral Titles Online (MTO) became fully operational. MTO is a cutting-edge Internet-based title system for mineral and placer claims and represents another step in the government's ongoing strategy to streamline mining regulation. The new system allows free miners to acquire mineral rights by selecting a claim on an Internet-based map, rather than by physically staking a claim.

Second, the BC Mining Plan was introduced on January 18, 2005. The plan is based on four core objectives:

- focus on communities and First Nations – including a made-in-BC approach to sustainable mining;
- protecting workers and protecting the environment – including continual improvements in standards and practices;
- global competitiveness – including actions to increase investment and further develop relevant skills and technologies; and
- access to land – including enhanced integration of exploration and mining with other land uses.

The BC Mining Plan further builds on recent achievements by including targeted actions to support the four cornerstones and to encourage growth in the coal, metals, industrial minerals, placer and aggregate sectors.

The government recently announced its intention to grant $25 million to the BC and Yukon Chamber of Mines for a new BC centre for geoscience. Called Geoscience BC, this new, independent organization will provide $20 million for new mineral geoscience projects and $5 million to create partnership opportunities with industry for oil and gas projects.

The Ministry of Energy and Mines is conducting an aggregate pilot project in partnership with the Fraser Valley Regional District. The purpose of the project is to develop a way to expand, and make more efficient, aggregate production in the Fraser Valley and throughout the province.

Agriculture

In recent years agriculture has suffered from the combined blows of BSE and the avian flu. In 2005, the government is reinforcing its commitment to creating growth in BC's agricultural and agri-culture industries, while protecting food safety.

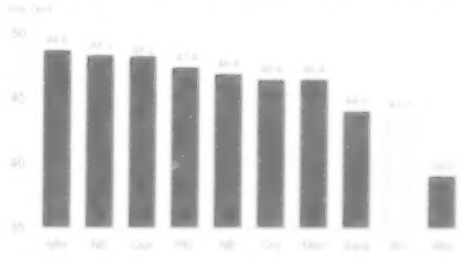
As part of the response to BSE and avian flu, the government will commit $27 million to assist producers and improve surveillance and testing. In addition, measures will be undertaken to improve competitiveness and invest in research and innovation.

A further $6 million will be available for fisheries initiatives including improved inspection and monitoring as well as programs designed to improve aquatic animal health.

High Tech

BC's high tech sector continues to rebound, fuelled, in part, by the province's earlier initiatives to create a competitive environment for the high tech sector. The government continues to work with the Premier's Technology Council to achieve the goal of establishing BC as one of the top ten high tech centres in the world.

Second lowest top marginal personal income tax rates



Many of the tax cuts introduced since 2001 are of direct benefit to the high tech sector, including:

- the reduction in the top marginal personal income tax rate to the second lowest in Canada;
- the elimination of the corporation capital tax on general corporations;
- the sales tax exemption for production machinery and equipment;
- the enhancements to the small business venture capital programs announced in *Budget 2001*; and
- extending the Scientific Research and Experimental Development Tax Credits for another five years in *Budget 2001*.

Most recently, the bio-technology industry and others in the high tech sector have pointed out that intellectual property such as patents is often moved offshore for tax reasons. This can remove an essential anchor holding emerging high tech firms in BC. Over the next several months, the government will examine how to encourage firms to keep intellectual property in BC and plans to introduce changes during the 2005/2006 fiscal year.

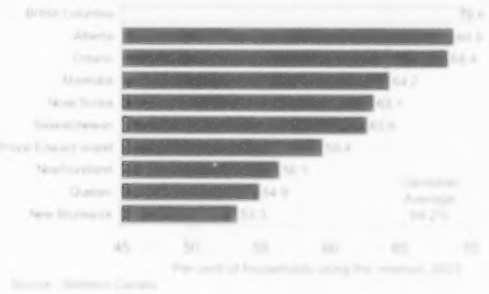
Other key initiatives include:

BC Innovation Council – the new BC Innovation Council was launched in 2004 to act as a one-stop point of access and support to high tech companies, educational institutions, technology industry awareness groups (including regional technology councils), federal science and technology agencies and university research labs. The Council will leverage resources from federal, private and commercial institutions to support innovation throughout British Columbia. It will also complement the province's Leading-Edge BC initiative. The BC Innovation Council is the central agency responsible for supporting and funding regional science and innovation councils and technology transfer centres.

Doubling the number of graduates in computer science, electrical and computer engineering – The government continues to make progress on achieving this goal. 2,685 student spaces have been funded to date (2002/03 to 2004/05) and the initiative will be completed over the next two years by funding an additional 925 new student spaces for a total of 3,610 by 2006/07. Participating institutions are working with the government to track the number of new graduates from this initiative.

Forging closer links between education and the economy – In November 2004, the government announced that the University of Victoria would receive $2.42 million from the BC Knowledge Development Fund towards the cost of a supercomputer – one of the largest in the world – as the centrepiece of a new regional facility for advanced research on climate change. The new supercomputer represents a strategic boost to UVic's research

BC ranks #1 in Internet connectivity



Per cent of households using the Internet, 2003

Source: Statistics Canada

capabilities, and will further enhance Canada's capacity to effectively compete in the global technology arena.

In November 2004, $1.5 million in provincial funding was announced to help build a state-of-the-art centre at the Emily Carr Institute of Art and Design where students, artists, researchers and educators will use technology to collaborate and conduct research on art, design, film and digital media. The province is providing research infrastructure funding to the Emily Carr Institute for the first time, to support its goal of capitalizing on new technology for creative endeavours.

The government has established and fully funded the Leading Edge Endowment Fund (LEEF) to provide for the creation of research chairs in the province. 250 BC Leadership Chairs and 6 Regional Innovation Chairs. Competitions for LEEF research chairs is ongoing.

Ports

The British Columbia Ports Strategy provides direction and priorities for action to maximize trade traffic and economic growth opportunities for BC and Canada and to maximize BC's position as a world cruise destination.

The BC port system currently handles about $40 billion a year in trade and contributes approximately $4 billion annually in economic output to the Canadian economy, $3 billion of which flows to British Columbia.

As gateways to the Asia-Pacific region, BC ports will continue to be critical to the economic future of Canada and British Columbia. China is a major driving force of trade expansion, particularly for container traffic. British Columbia's proximity to Asian markets also offers major growth opportunities for resource exporters and manufacturers across western Canada. Successfully capturing this growth potential means that by 2020, port capacity would reach annual trade of $75 billion, port employment would increase to 80,000 and the annual contribution to GDP would almost triple.

The BC Government has already made significant commitments:

- A ports competitiveness initiative to reduce property taxes for the province's major port terminal operators to stimulate new investment;
- Significant investment for strategic development including $17 million to create new container handling capacity at the Port of Prince Rupert; and
- $2.5 million to support the development of British Columbia as a cruise destination.

Building on these initiatives, a new BC Multi-Modal Action Plan will be released in the spring of 2005. The Plan will identify critical strategic improvements to BC's ports as well as key inland road and rail developments needed to ensure the province realizes its full potential as an Asia-Pacific gateway.

In addition, development of the Gateway program to improve traffic flows and goods movement in the Lower Mainland is continuing.

Film and Television

A rising Canadian dollar, combined with aggressive action in other jurisdictions, has created significant challenges for BC's film and television production industries in the last year. In 2004 production activity dropped off and further reductions were feared in 2005, particularly in light of tax credit increases announced in Ontario and Quebec.

The government responded by announcing its intention to increase BC's domestic and foreign film tax credits, on an interim basis, to match the new rates in Ontario. The basic Film Incentive BC tax credit available for domestic productions will increase to 30 per cent from 20 per cent, while the Production Services Tax Credit for foreign productions will rise to 16 per cent from 11 per cent.

For its part, industry will undertake a broad based effort to help the sector thrive in an increasingly competitive marketplace.

Tourism

British Columbia's tourism industry is continuing to recover from challenges such as forest fires, BSE, Avian Flu, SARS and security fears. The tourism industry employs about 115,000 people and is expected to contribute nearly $9.4 billion in tourism revenue to the provincial economy in 2004, up almost seven per cent from $8.8 billion in 2003.

In May 2004, government released the "Spirit of 2010" Tourism Strategy. The strategy sets government's tourism priorities and is guiding the effort to double tourism's contribution to the provincial economy by 2015. In brief, the focus will be on enhancing marketing efforts, supporting sound development approvals and encouraging communities across the province to maximize their tourism potential.

To help achieve this, the annual marketing budget for Tourism BC has been doubled to $50 million. As well, a one-time contribution of $25 million to the Canada-BC Infrastructure Program will go towards a five-year plan to help individual communities and regions better market their tourism products and services.

As the 2010 Winter Olympic Games approach, British Columbia will need to produce or attract more well-trained tourism employees. A private-public Tourism and Hospitality Training Consortium was established in August 2004 to ensure tourism employers receive relevant, adequate training to support industry expansion.

British Columbia's resorts and resort communities are key components of the province's tourism sector. The resort tourism sector is worth $1.9 billion and employs over 20,000 people. Resorts contribute significantly to the provincial economy and present enormous economic opportunities. The BC Resort Task Force, created by the Premier, submitted a report to government identifying tourism recommendations applicable to industry, local government, First Nations and the provincial government to strengthen the resort industry.

In response, the province launched the BC Resort Strategy and Action Plan on November 9, 2004 to facilitate all resort tourism expansion and development. It is estimated that more than $3 billion in private sector investment could be spent over the next four years on expanding existing resorts.

The province will also create more new resorts and a Spirit of 2010 Trail to open up exciting new opportunities for visitors to explore British Columbia.

Small Business

Small business continues to play a leading role in British Columbia's economy as the primary source of new jobs and private sector jobs and the provider of all businesses in the province. The sector is growing, with 2,000 more new small businesses in 2003 than the previous year. Almost 30 per cent of the 1,000 new jobs created in small business in 2003, making it first among the provinces. Of particular note is that women-owned and operated small

At 3.0 per cent of small businesses in BC, the highest rate of ownership by women in the country.

BC has one of the lowest small business corporate income tax rates in the country and effective January 1, 2018 the threshold for this rate is increased to $500,000 from $350,000. BC small businesses continue to benefit from the second lowest top marginal income tax rate in the country as well as the fact that BC has no general capital tax and exempts production machinery and equipment from the provincial sales tax.

Low small business corporation income tax rate

BC's business application has been streamlined to accommodate innovative e-government services making it faster, cheaper and easier to do business. The small business number has been implemented, which simplifies the onboarding business process and provides for creating a single identifier for all individual business when working with the federal, provincial and municipal governments. In October 2016, the province officially launched the Checkpoint Program, an expansion of a government service that assists newborn business people.

The province's Venture Capital Program continues to help small businesses increase their access to equity capital with capital tax implications of sale of shares considering amendments to a previous move enacted in early 2018.

Business Confidence Index

In 2016, Small Business BC was created by amalgamating the Canada British Columbia Business Service Society, a partnership between the federal and provincial governments and the private sector. This organization is the province's key interface to access business resources.

Marketing the BC Economy

Working with leading edge digital technologies and other stakeholders, the government has developed a comprehensive plan to attract new investments into the province. Prime site candidates will be the outstanding job opportunities created by the $40 billion Liquefied Natural Gas (LNG) industry. The first elements of the new business plan will be launched in February 2018.

The province's business centres – five plans launched in September – will be a place for access, assistance to identify international business opportunities in the form of partnerships, memorandums agreements, joint ventures and mergers and acquisitions.

The province has committed $60 million over the next three years to develop Make British Columbia, a partnership between government, industry, and other stakeholders in the technology industry. The partnership's objectives include marketing BC as an internationally competitive location for technology investment and research. Results will be measured by growing small to medium BC companies, an up and coming, diverse, multi-sectoral companies.

As well, on November 9, 2004, the *Leading Edge* Technology Centre opened in downtown Vancouver. The technology centre brings together BC's leading technology industry associations and support organizations under one roof to help promote BC as an innovative and emerging world leader in technology enterprise.

Sustainable Environmental Policies

A commitment to science-based environmental stewardship, sustainable resource management and respect for the strong environmental values of British Columbians remain an essential component of the province's economic strategy. These objectives are vital to its long run success.

Several key steps have already been taken since 2001 including:

- implementing the new, streamlined *Environmental Assessment Act* and accompanying regulations in 2002;
- the *Environmental Management Act*, passed in the fall of 2003, will streamline approval processes, thus removing impediments to business and fostering economic development. It will also provide better use of penalties and incentives to ensure compliance and help to address the cumulative impacts of pollution; and
- a new regulation that appropriately limits discharges of absorbable organic halides.

In the past year several new measures have added momentum to the government's environmental agenda. The *Wildlife Act* was amended in the spring of 2004 to enhance the government's ability to designate and protect species at risk in BC.

The *Drinking Water Protection Act* was amended to strengthen accountability for the management and delivery of drinking water and establish an advisory board to assist with development of groundwater regulations. The government will spend an additional $8 million to implement the Act including research into the protection of groundwater and contaminated sites.

The new *Integrated Pest Management Act* replaced previous legislation and is intended to reduce our reliance on pesticides. The regulations will protect the environment and drinking water while making the process more streamlined for industry.

The process for dealing with contaminated sites has been streamlined and made more effective through changes to the Contaminated Sites Regulation. With the changes, more sites will be cleaned up and re-developed at lower cost, allowing government to focus on the high-risk sites. The government has committed $91 million for the investigation and remediation of contaminated sites on Crown Land.

After a review of the product stewardship program, an industry-lead oil-recycling program was approved and government is continuing to explore opportunities to extend industry-led product stewardship (e.g. recycling of electronics).

The government has set up a $7 million trust fund to assist in protecting and restoring British Columbia's rivers and established an $8 million Trust to improve the protection of key environmental values that occur on private lands.

The provincial government has developed a climate change plan for British Columbia that supports the government's drive for economic revitalization. In direct support of government's effort to maintain or improve its position of generating the third lowest greenhouse gases per capita in Canada, BC has approved a plan including funding to significantly increase the number of "green" vehicles in government's fleet – the largest fleet of light vehicles in British Columbia.

It is also important to encourage consumers to conserve energy and reduce green house gases. For the next three years the government will double to $2,000 the provincial sales tax incentives available for hybrid passenger vehicles and will exempt ENERGY STAR rated

home heating equipment from provincial sales tax for the next two years.

In the coming year, the province will focus on:

- Establishing a BC Conservation Corps. The program will provide high school and university students as well as recent post-secondary graduates the chance to apply their education and learn new skills in the field of environmental stewardship;
- Ongoing improvements to the regulatory compliance model to lower costs for government and industry, while improving adherence to environmental regulations;
- Working with communities to improve air quality;
- Implementing the Living Rivers Strategy to improve the province's watersheds and water;
- In cooperation with other stakeholders, developing an Ocean Strategy that will protect the environment (e.g. designate marine protected areas), while allowing economic development where appropriate; and
- Developing new regulations and codes of practice under the new *Environmental Management Act* that will streamline administrative processes for oil and gas industries while protecting human health and the environment.

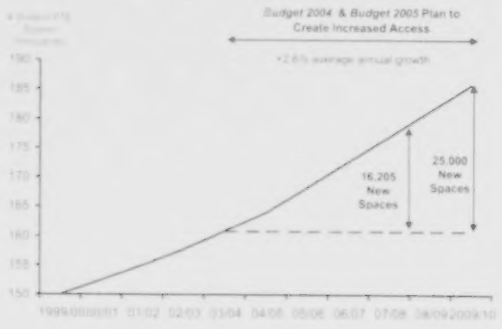
Education Excellence

An education system that allows for every individual to reach his or her goals is an essential linchpin for a strong and productive economy. The province is continuing to increase per student funding in the kindergarten to Grade 12 system. In 2005/06 per pupil funding will increase by 4.8 per cent to $7,079. The increased funding will be linked to local plans that ensure access to:

- school libraries and other learning resources;
- music and arts programs; and
- improved services for special needs.

In partnership with the post-secondary sector, the province is on track with its plan to create

Public Post Secondary Student FTE Spaces



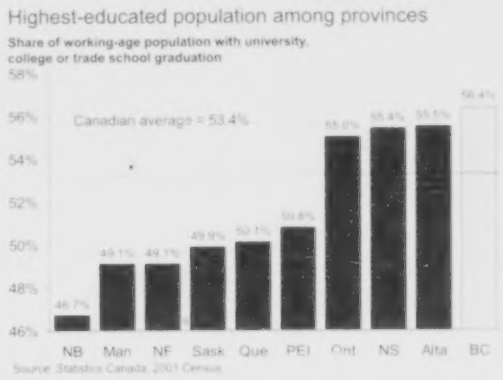
25,000 new public post-secondary spaces between 2004 and 2010. Over 3,200 spaces were created last year in regions across the province. Almost 13,000 more will be added over the next three years.

The province will fund its share of the annual costs of these new spaces at an average of $9,200 each and will provide almost $800 million for capital infrastructure to support the extra seats.

The government will work with post-secondary institutions to ensure the new spaces address critical labour market needs and contribute to the development of British Columbia's knowledge economy.

Other developments include:

- Over 75 per cent of all student loan applications (90 per cent of applications from students at BC public institutions) now received on-line.
- On-Line application capabilities have been, and continue to be, expanded to some BC private and out-of-province institutions.
- New programs have been introduced to assist students in managing the debt they accumulate in attending post-secondary education. To this end, the government has announced the BC Loan Reduction Program, in partnership with Canada Millennium Scholarship Foundation. Improvements have also been made to interest relief and debt reduction in repayment programs. As well, the loan forgiveness program has been expanded.



The Industry Training Authority (ITA), which is governed by a nine member, industry-based board, began to implement a new model of industry training that is industry-led in early 2004. Key goals of the ITA are to provide an accessible, affordable, and relevant industry training system, and to support innovative, flexible and high quality training that provides learners with the skills and knowledge to secure jobs in the workforce and address critical shortages in the labour market. The ITA is accountable to increase the number of trainees in the industry training system by 30 per cent by 2006/07.

Government has established education and training groups in key sectors (aerospace, oil and gas, hospitality and tourism). The groups bring together government, industry and educators to provide advice on how to ensure that the training needs of those sectors are met.

Two private colleges and one private university are authorized to offer and grant specific degrees under the new *Degree Authorization Act*. Private and out-of-province post-secondary institutions are continuing to apply and undergo a quality assessment process to gain approval to offer degree programs, grant degrees and to use the term "university" in British Columbia.

Overall, the province's strategic post secondary investment plan supports government's economic strategy to build a highly skilled labour force that will

- help ensure the success of the 2010 Winter Olympics;
- provide a foundation for the growth of the knowledge economy; and
- meet key social requirements by increasing spaces for training social workers, nurses, doctors, and other critical health professionals.

Conclusion

Since 2001, the government's economic strategy has worked. British Columbia's economy is strong and vibrant, investor interest is high and British Columbians have renewed confidence in their province.

The government will build on this success by focusing on:

- maintaining a balanced budget;
- undertaking a comprehensive review of BC's competitiveness, steered by a BC Competition Council;
- continuing to invest in key projects across the province to build a modern, efficient transportation system;
- following through on key sector strategies, while also undertaking new initiatives such as the Asia-Pacific Gateway Strategy; and
- helping individual British Columbian's achieve their goals through further improvements to the education sector.

Part 2: REVENUE MEASURES

Table 2.1 Summary of Revenue Measures

	Effective Date	Taxpayer Impacts 2005/06	2006/07
		($ millions)	
Income Tax Act			
• Introduce the BC Tax Reduction, a non-refundable personal income tax credit	January 1, 2005	(120)	(122)
• Extend the Mining Exploration Tax Credit to 2016	August 1, 2006	-	-
• Increase the Film Incentive BC and Production Services tax credit rates	January 1, 2005	(30)	(8)
• Increase corporate income tax small business threshold to $400,000 from $300,000	January 1, 2005	(10)	(10)
Social Service Tax Act			
• Reduce provincial sales tax rate to 7 per cent from 7.5 per cent	October 21, 2004	(270)	(270)
• Increase incentive for purchases of hybrid passenger vehicles on a time-limited basis	February 16, 2005	(1)	(2)
• Provide time-limited exemption for ENERGY STAR residential heating equipment	February 16, 2005	(2)	(2)
• Increase vehicle surtax threshold for passenger vehicles to $49,000 from $47,000	February 16, 2005	(5)	(5)
Property Transfer Tax Act			
• Increase thresholds for First Time Home Buyers' exemption	February 16, 2005	(15)	(15)
Medicare Protection Act			
• Enhance Medical Services Plan premium assistance	August 1, 2005	(27)	(40)
Home Owner Grant Act			
• Increase threshold for Home Owner Grant phase-out and reduce phase out rate	2005 tax year	(3)	(3)
School Act			
• Exempt specified improvements of eligible hydroelectric projects	2005 tax year	(1)	(1)
Total		(484)	(478)

Revenue Measures — Supplementary Information

For more details on tax changes see Ministry of Provincial Revenue website at: www.rev.gov.bc.ca/budget/budget.htm

Income Tax Act

BC Tax Reduction

Effective for the 2005 taxation year a non-refundable personal income tax credit is introduced. The BC Tax Reduction is targeted to low and modest income taxpayers and will be calculated as $560 less 3.6 per cent of net income in excess of $16,000. The credit is used to reduce BC personal income taxes payable and will benefit taxpayers with net incomes of $26,000 or less in 2005. The total personal income taxes paid by BC residents at different income levels are shown in Table 2.2.

Table 2.2 Interprovincial Comparisons of Provincial Personal Income Taxes Payable[1] – 2005 (Rates known as of February 3, 2005)

Taxable income[2]	British Columbia[3]	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec[3]	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	Annual provincial taxes payable[4] ($)									
$10,000	0	0	119	77	0	(35)	154	0	0	219
$20,000	396	427	1,143	1,191	641	898	1,056	966	1,115	1,203
$30,000	1,175	1,358	2,167	2,231	1,504	2,450	1,957	1,858	2,028	2,210
$50,000	2,867	3,286	4,552	4,935	3,466	5,940	4,710	4,713	4,687	5,366
$80,000	6,047	6,286	8,452	9,645	7,309	11,972	9,403	9,523	9,779	10,922

[1] Calculated for a single individual with wage income and claiming credits for Canada Pension Plan and Quebec Pension Plan contributions, Employment Insurance premiums and the basic personal amount.

[2] Taxable income, total income less allowable deductions, is defined by federal legislation in all provinces except Quebec. In the table, it is assumed that federally-defined taxable income is equal to Quebec taxable income.

[3] Quebec residents pay federal tax less an abatement of 16.5 per cent of federal tax. In the table, the Quebec abatement has been used to reduce Quebec provincial personal income tax for comparative purposes.

[4] Includes provincial low income reductions in British Columbia, Manitoba, Ontario, Nova Scotia and Prince Edward Island, provincial surtaxes payable in Ontario, Nova Scotia, Prince Edward Island and Newfoundland and contributions to the Health Services Fund in Quebec. Excludes credits for sales and property taxes.

The BC Tax Reduction will reduce or eliminate taxes for about 730,000 BC taxpayers at a cost of $120 million in 2005. The maximum credit of $360 and the $16,000 net income threshold will be indexed to provincial inflation starting in 2006.

Table 2.3 BC Tax Reduction – 2005 Tax Year*

Income	BC tax before credit	Maximum credit	Net BC tax
$9,000	$0	$360	$0
$12,000	$161	$360	$0
$16,000	$387	$360	$27
$20,000	$612	$216	$396
$24,000	$837	$72	$765
$26,000	$950	$0	$950

* Calculated for a single taxpayer with wage income, no deductions and claiming the basic personal credit and credits for Canada Pension Plan contributions and Employment Insurance premiums only.

Mining Exploration Tax Credit

The Mining Exploration Tax Credit is extended for an additional ten years to 2016. The credit is available to both individuals and corporations that undertake mining exploration in the province. The credit is calculated as 20 per cent of eligible BC mining exploration expenditures. The credit was scheduled to expire in August 2006 but will be extended to December 31, 2016.

Film Incentive BC and Production Services Tax Credits

As announced on January 20, 2005, the province's tax credit rates for film and television productions are increased effective January 1, 2005 to March 31, 2006. The basic Film Incentive BC tax credit rate is increased to

30 per cent from 20 per cent and the basic Production Services Tax Credit is increased to 18 per cent from 11 per cent.

The higher rates will apply to productions that start principal photography in the period from January 1, 2005 to March 31, 2006. Pre-production costs incurred prior to January 1, 2005 are not eligible for the higher rates.

For productions that consist of episodes of a Canadian television series that are eligible for the basic Film Incentive BC tax credit, the 30 per cent rate will apply to each episode of the production where principal photography of that episode begins after January 1, 2005. In addition, for productions that start principal photography before April 2006 and conclude filming after March 31, 2006, transition rules will apply.

Small Business Threshold

The maximum amount of taxable income to which the small business corporate income tax rate may be applied, or the "business limit", is increased to $400,000 from $300,000 effective January 1, 2005.

Corporations will pro-rate their business limits based on the number of days in the taxation year before and after January 1, 2005. When allocating the business limit among associated corporations, the provincial business limit will continue to be allocated in the same proportion as the federal business limit.

Social Service Tax Act

Provincial Sales Tax Rate

The provincial sales tax rate was reduced to 7 per cent from 7.5 per cent effective October 21, 2004.

Alternative Fuel Vehicles

Effective February 16, 2005, provincial sales tax relief for qualifying alternative fuel vehicles will be provided as a point of sale tax reduction rather than a refund. In addition, changes have been made to:

- the definition of "hybrid electric vehicle", and
- the amount of sales tax relief.

New Definition of Hybrid Electric Vehicle

The definition of "hybrid electric vehicle" is expanded to reflect technological developments. To qualify under the new definition the motor vehicle must be manufactured with both an internal combustion engine and an electric motor and must be:

- capable of being propelled simultaneously by both the electric motor and the internal combustion engine, or solely by the electric motor operating on electricity generated by the internal combustion engine;
- designed to automatically shut off the internal combustion engine when idling, braking or coasting (commonly referred to as "idle stop"); and

- designed to capture and store electricity generated during braking (referred to as "regenerative braking").

Amount and Calculation of Tax Reductions

Existing provincial sales tax relief for alternative fuel vehicles is enhanced and the maximum benefit for hybrid passenger vehicles is increased on a temporary basis.

Under the previous refund program, refunds were calculated as 30 per cent of sales tax paid up to a maximum of $1,000, $5,000, or $10,000 depending on whether the vehicle was a passenger vehicle, a shuttle bus, or a passenger bus. Under the new program:

- Hybrid electric passenger vehicles are eligible for a 100 per cent reduction of sales tax up to a maximum of $2,000 from February 16, 2005 to March 31, 2008; the maximum tax relief is reduced to $1,000 from April 1, 2008 to March 31, 2009 and is eliminated after March 31, 2009;
- Alternative fuel vehicles that are not hybrid electric passenger vehicles, passenger buses or shuttle buses, are eligible for a tax reduction of 50 per cent of the sales tax payable to a maximum of $1,000;
- Shuttle buses are eligible for a tax reduction of 50 per cent of sales tax payable to a maximum of $5,000; and
- Passenger buses are eligible for a tax reduction of 50 per cent of sales tax payable to a maximum of $10,000.

The tax reductions for alternative fuel vehicles other than hybrid electric passenger vehicles are not phased out.

Energy Efficient Residential Heating Equipment Exemption

Effective from February 16, 2005 until March 31, 2007, the following heating equipment is exempt from provincial sales tax when purchased or leased for residential purposes:

- Gas fired forced-air furnaces, boilers, air-source heat pumps and ground source heat pumps that are listed as being "ENERGY STAR Qualified" by the Office of Energy Efficiency, Natural Resources Canada; and
- Oil-fired forced-air furnaces that have a Seasonal Energy Utilization Efficiency rating (SEUE) of at least 85 per cent as established under the federal *Energy Efficiency Act*.

To be designated as "ENERGY STAR Qualified", products must meet or exceed technical specifications designed to ensure that they are among the most energy efficient in the marketplace.

Vehicle Surtax Thresholds for Passenger Vehicles Increased

Effective February 16, 2005, the threshold for the surtax on passenger vehicles is increased from $47,000 to $49,000. Tax rates will apply as follows:

- 7 per cent on passenger vehicles valued at less than $49,000;

- 8 per cent on passenger vehicles valued at $49,000 or more, but less than $50,000;
- 9 per cent on passenger vehicles valued at $50,000 or more, but less than $51,000; and
- 10 per cent on passenger vehicles valued at $51,000 or more.

The new thresholds apply to all passenger vehicles purchased after February 15, 2005. For leased passenger vehicles, the new vehicle surtax thresholds apply to the first lease payment due after February 15, 2005.

Property Transfer Tax Act

Fair Market Value Threshold for Eligibility under the First-Time Home Buyers' Exemption Program

Effective for registrations after February 15, 2005, the fair market value threshold for eligible residential property under the First-Time Home Buyers' exemption program is increased by about 18 per cent to $325,000 from $275,000 in the Greater Vancouver Regional District, the Capital Regional District and the Fraser Valley Regional District and to $265,000 from $225,000 in the rest of the province. A proportional exemption is provided for residences that have a fair market value up to $25,000 above the new thresholds.

Effective for registrations after February 15, 2005 the mortgage pay down limits are increased. The pay down limit is the maximum that a mortgage can be paid down in the first year without losing eligibility for the First-Time Home Buyers' Exemption. The limit is calculated as the greater of the amount required to pay the mortgage down to 70 per cent of fair market value or a specified amount. For qualifying properties in the Capital Regional District, the Greater Vancouver Regional District and the Fraser Valley Regional District the specified amount is increased to $13,000 from $11,000. For other parts of British Columbia the amount is increased to $10,000 from $9,000.

Medicare Protection Act

Medical Services Plan Premium Assistance

Effective August 1, 2005, the Medical Services Plan premium assistance program is enhanced to reduce or eliminate monthly premiums for about 215,000 people. The changes will reduce premium revenue by $40 million annually.

Premium assistance is enhanced by increasing the adjusted net family income thresholds by $4,000 each (see Table 2.4).

Table 2.4 Medical Service Plan Premium Assistance Changes
(Effective August 1, 2005)

Level of assistance	Per cent of premiums payable	Adjusted net family income range*	
		Before changes	After changes
1	0	$16,000 or less	$20,000 or less
2	20	$16,001 to $18,000	$20,001 to $22,000
3	40	$18,001 to $20,000	$22,001 to $24,000
4	60	$20,001 to $22,000	$24,001 to $26,000
5	80	$22,001 to $24,000	$26,001 to $28,000

* Adjusted net family income is used to determine the level of assistance and is defined as net income from an applicant's (and spouse's) income tax return, less $3,000 for each dependant (reduced by child care expenses claimed), $3,000 for each person in the family over age 65 and $3,000 for each person in the family who is disabled.

Table 2.5 shows the impact of these changes for a single person, a senior couple and a family of four at various income levels. For example, the adjusted net income of a senior couple with $34,000 annual income is $25,000. This couple will be eligible for the 60 per cent level of assistance and pay monthly premiums of $57.60 per month, or $691.20 annually; a reduction of $460.80 per year.

Table 2.5 Examples of Medical Service Plan Premium Changes
(Effective August 1, 2005)

Annual net family income	Annual premiums before changes	Annual premiums after changes	(Decrease)
Single			
$16,000 or less	$0.00	$0.00	$0.00
$16,001 to $18,000	$129.60	$0.00	($129.60)
$18,001 to $20,000	$259.20	$0.00	($259.20)
$20,001 to $22,000	$388.80	$129.60	($259.20)
$22,001 to $24,000	$518.40	$259.20	($259.20)
$24,001 to $26,000	$648.00	$388.80	($259.20)
$26,001 to $28,000	$648.00	$518.40	($129.60)
Over $28,000	$648.00	$648.00	$0.00
Senior Couple			
$25,000 or less	$0.00	$0.00	$0.00
$25,001 to $27,000	$230.40	$0.00	($230.40)
$27,001 to $29,000	$460.80	$0.00	($460.80)
$29,001 to $31,000	$691.20	$230.40	($460.80)
$31,001 to $33,000	$921.60	$460.80	($460.80)
$33,001 to $35,000	$1,152.00	$691.20	($460.80)
$35,001 to $37,000	$1,152.00	$921.60	($230.40)
Over $37,000	$1,152.00	$1,152.00	$0.00
Family of Four			
$25,000 or less	$0.00	$0.00	$0.00
$25,001 to $27,000	$259.20	$0.00	(259.20)
$27,001 to $29,000	$518.40	$0.00	(518.40)
$29,001 to $31,000	$777.60	$259.20	(518.40)
$31,001 to $33,000	$1,036.80	$518.40	(518.40)
$33,001 to $35,000	$1,296.00	$777.60	(518.40)
$35,001 to $37,000	$1,296.00	$1,036.80	(259.20)
Over $37,000	$1,296.00	$1,296.00	$0.00

Home Owner Grant Act

Increase in Threshold for Home Owner Grant Phase-out

Effective for the 2005 tax year, the threshold for the phase-out of the home owner grant is increased to $685,000 from $585,000. For properties with assessed values exceeding the threshold amount, the home owner grant will be phased out. Effective for the 2005 tax year, the rate at which the grant is phased out is reduced to $5 from $10 for each $1,000 of assessed value above the threshold. Recipients of the basic home owner grant will continue to receive some grant for properties with values up to $779,000. For seniors and other home owners receiving the additional grant a partial grant will be available for properties with values up to $834,000.

The increase to the threshold will, on average, offset the increase of sharply rising assessed values on higher-priced properties over the past year. As was the case last year, approximately 95.5 per cent of eligible homeowners will receive the full home owner grant.

School Act

School Tax Exemption for Alternative Energy Power Projects

Effective for the 2005 tax year, government is introducing an exemption from school tax for specified improvements of eligible hydroelectric projects that first began production after December 31, 2001.

Run-of-river projects that have long-term energy purchase agreements with BC Hydro signed before January 1, 2005 are eligible for the exemption. Run-of-river projects that do not have long-term energy purchase agreements with BC Hydro and hydroelectric storage projects are eligible for the exemption if they are certified to use the Ecologo trademark under the federal Environmental Choice Program.

For projects requiring Ecologo certification to qualify for the exemption, a refund of school tax paid on the qualifying improvements is available for the three years prior to the first year they become exempt.

The exemption is for intake facilities, including trash racks, penstocks and their foundations and support structures, tunnels and tunnel linings. Weirs are exempt when part of a run-of-river project. Dams do not qualify for the exemption.

Table 2.6 Summary of Administrative Measures

	Effective Date
Income Tax Act	
• Replace medical expense notch provision for expenses claimed for dependants	January 1, 2004
• Clarify that the determination of a refundable tax credit constitutes an assessment	January 1, 2000
• Confirm practice of not charging taxpayers interest when account is paid on time and parallel federal Act regarding a series of transactions for anti-avoidance purposes	July 1, 2003 and Royal Assent
• Ensure that penalties can apply to false claims and omissions when claiming tax credits	October 1, 2002
• Limit the foreign tax credit that can be claimed by corporations	January 1, 2006
• Exclude expenses incurred for purposes of the BC Mining Flow-through Share Tax Credit from eligible expenses for purposes of the Mining Exploration Tax Credit	January 1, 2005
Corporation Capital Tax Act	
• Require financial corporations to retain records for specified time	Royal Assent
• Add a definition of salaries and wages for determining paid up capital of financial corporations allocated to other jurisdictions	February 16, 2005
• Require financial corporations to have the same year end when claiming an investment allowance	April 1, 2005
Social Service Tax Act	
• Provide additional exemptions for *bona fide* aquaculturists	February 16, 2005
• Provide additional exemptions for *bona fide* farmers	February 16, 2005
• Expand exemption for safety helmets	February 16, 2005
• Increase maximum price for self-contained smoke alarms	February 16, 2005
• Expand exemption for penstock piping and related equipment	February 16, 2005
• Require remittance of all amounts collected as tire and battery levies	February 16, 2005
• Provide exemption for recordings of moving picture and audio productions when used for specified purposes	August 1, 1996 and February 16, 2005
Motor Fuel Tax Act	
• Improve the enforcement of coloured fuel use	February 16, 2005
• Clarify coloured fuel use authorized in all unlicensed farm vehicles for farming purposes	February 16, 2005
Tobacco Tax Act	
• Provide authority to seize stolen product	Royal Assent
• Revise the definition of "package"	February 16, 2005
School Act	
• Based on the provincial residential property tax rate formula, set rate so that the tax on the average home increases by the provincial rate of inflation	January 1, 2005
• Rates adjusted so that the change in total non-residential school tax revenue is limited to inflation plus new construction	January 1, 2005
Taxation (Rural Area) Act	
• Reduce the rural residential property tax rate so that the change in total non-residential rural area tax revenue is limited to inflation plus new construction	January 1, 2005
Insurance Premium Tax Act	
• Introduce an exemption for out-of-province non-profit health insurers	January 1, 1997
• Provide authority to inspect tax related records	Royal Assent
• Clarify the definition of taxpayer	Royal Assent
• Provide an exemption for real estate insurance organizations	September 15, 1990
International Financial Activity Act	
• Clarify that registration date and registration refusal can be appealed	September 1, 2004
• Change the international financial centre society's name	Royal Assent
Hotel Room Tax	
• Provide an exemption for industrial camps	February 16, 2005
Health Authorities Act	
• Clarify property tax exemptions for public hospitals and public-private partnerships	Royal Assent

Administrative Measures — Supplementary Information

For more details on tax changes see Ministry of Provincial Revenue website at: www.rev.gov.bc.ca/budget/budget.htm

Income Tax Act

Medical Expense Tax Credit

Effective for the 2004 taxation year, changes are made to the medical expense tax credit to allow more expenses that are incurred on behalf of dependants to be claimed. These changes parallel similar ones made to the federal medical expense tax credit in 2004.

Medical expenses paid for dependent relatives (e.g., child, grandparent, niece, nephew, etc.) have been subject to "notch" provisions. That is, the expenses were reduced if they exceeded the basic personal credit amount.

Under the new provisions:

- Medical expenses made on behalf of **minor children** will be pooled with the medical expenses of the taxpayer and his or her spouse or common-law partner, subject to the taxpayer's minimum expense threshold (the lesser of three per cent of the taxpayer's net income and $1,722 for 2004), without regard to the income of the minor child.
- For medical expenses paid on behalf of **other dependent relatives**, taxpayers will be able to claim qualifying medical expenses paid on behalf of such a dependant that exceed the lesser of 3 per cent of the dependant's net income and $1,722 (that is, the threshold for the credit that would apply if the dependant claimed the expenses on their own). The maximum eligible amount that can be claimed on behalf of each dependent relative other than minor children will be $5,000.

Assessments

The Act is amended to clarify that the determination of refundable tax credits constitutes an assessment of income tax. This amendment is required because the date of assessment is used to determine various timeframes under the Act, such as statue-barring dates, interest and penalties, and the filing of notices of objections or appeals.

Measures to Harmonize with Federal Act

Effective July 1, 2003, the Act is amended to confirm the existing practice to not charge taxpayers interest if their account is paid in full by the date specified in their notice. In addition, the Act is amended to parallel the federal *Income Tax Act* regarding a series of transactions for purposes of the province's anti-avoidance provision.

Refundable Taxes

The Act is amended to ensure that penalties may apply to various provincial refundable tax credits. In particular, the amendments will ensure that penalties can apply to persons who knowingly make false statements or omissions when claiming tax credits, or who claim a refund to which they are not entitled.

Limit the Foreign Tax Credit

Both the federal and provincial governments provide a corporate foreign tax credit on income taxes paid to foreign jurisdictions on non-business income earned in the year. The provincial foreign tax credit is computed on a country-by-country basis and is limited to the foreign income taxes paid in excess of the federal foreign tax credit deducted for that year.

The Act is amended to ensure that a corporation is deemed to have claimed the maximum federal foreign tax credit per country before a provincial foreign tax credit is allowed. The amendments remove the unintended result that would allow a corporation to reduce its provincial taxes before claiming a full federal credit. This change is consistent with the treatment of foreign taxes paid by individuals. The change is made applicable for corporate taxation years beginning on or after January 1, 2006.

Mining Exploration Tax Credit

British Columbia has two tax credit programs to support mining exploration in the province, the Mining Exploration Tax Credit and the BC Mining Flow-Through Share Tax Credit. Both programs allow a tax credit based on specific exploration expenses incurred. The BC Mining Flow-Through Share Tax Credit is harmonized with an equivalent federal program.

In 2004, the province and the federal government announced extensions to their mining flow-through share tax credit programs to December 31, 2005. As a result of the extension to the federal and provincial programs, the definition of excluded expenses in the Mining Exploration Tax Credit program is updated to exclude expenses incurred and claimed for purposes of the mining flow-through share tax credit programs.

Corporation Capital Tax Act

Retention of Records

The *Corporation Capital Tax Act* is amended to clarify how long a financial corporation must retain its records. A financial corporation will be required to keep records related to, or relevant to, a taxation year for the later of:

- 7 years after the delivery of the return;
- during the period a waiver is in effect;
- 9 months after revoking a waiver; and
- until all appeals have been exhausted.

These requirements are consistent with those of other provincial taxation statutes.

Definition of Salaries and Wages

For purposes of determining the net paid up capital of a bank or credit union allocated to jurisdictions outside BC, a formula comprising salaries and wages and loans and deposits is used. A definition of salaries and wages is added to ensure consistency with the definitions used in other jurisdictions.

Investment Allowance

The *Corporation Capital Tax Act* provides an investment allowance deduction for financial corporations that own shares in another financial corporation that has a permanent establishment in BC. The Act is amended to limit the investment allowance deduction to shares in a financial corporation only if that corporation has the same taxation year-end as the financial corporation claiming the deduction.

Social Service Tax Act

***Bona Fide* Aquaculturists**

Effective February 16, 2005:

- pearl nets, mussel socking and other netting used for shellfish seed and grow outs are added to the list of items that can be purchased or leased exempt from provincial sales tax by *bona fide* aquaculturists for an aquaculture purpose; and
- the maximum length of boats that may be purchased exempt by *bona fide* aquaculturists for an aquaculture purpose is increased from 11 metres to 20 metres.

***Bona Fide* Farmers**

Effective February 16, 2005, the following are added to the list of items that can be purchased or leased exempt from provincial sales tax by *bona fide* farmers for a farm purpose:

- disinfectant mats; and
- tapeners (hand-held devices used to attach plants to plant supports).

Safety Equipment Exemption Expanded

Safety Helmets

Effective February 16, 2005, the exemption for safety helmets is expanded to include all safety helmets for use in sport, recreation and transportation. Previously, the exemption applied only to bicycle helmets, motorcycle helmets and work related safety helmets and caps, which included helmets for professional sport. With the expansion of the exemption, all safety helmets, including skateboarding, snowboarding, baseball, hockey and boxing helmets, are exempt.

Smoke and Fire Alarms

Effective February 16, 2005, the exemption for self-contained smoke and fire alarms for residential use is amended to increase the qualifying per unit price from $50 to $250.

Exemption for Penstock Systems Expanded

Effective February 16, 2005, the provincial sales tax exemption for penstock piping and related equipment is expanded to include penstock and related equipment for any hydroelectric power generating facility that is validly licensed under the *Water Act*.

Previously, penstock was exempt in either of two ways – as machinery or equipment if located on a hydroelectric manufacturing site, or because it was part of a run-of-river hydroelectric facility that held a valid water license for power production purposes under the *Water Act*. The expansion of the exemption means it will now apply to hydroelectric storage projects where the penstock is located, in part, outside of the manufacturing site, provided the facility has a valid power production license under the *Water Act*.

The expanded exemption is effective for purchases of penstock and related equipment made after February 15, 2005.

Environmental Levies

Effective February 16, 2005, the Act is amended to require all amounts collected as environmental levies on tires and batteries to be remitted to Government. This harmonizes the collection and remittance of environmental levies with that of the provincial sales tax. Tire and battery levies are deposited in the Sustainable Environment Fund and are used to fund provincial environmental protection and renewal initiatives.

Programming Acquired for Public Broadcast or for Making Copies for Sale or Lease

Effective August 1, 1996, an exemption is provided for recordings of visual and audio productions such as TV and radio programs and movies acquired for the purpose of:

- public broadcast by a licensed radio or television broadcaster; or
- making copies of such productions for public broadcast by licensed broadcasters, for public exhibition (subject to payment of tax by the exhibitor) or for sale or lease.

Visual and Audio Productions Acquired for Copying into Other Productions

Effective February 16, 2005, an exemption is provided for recordings of visual and audio productions, such as film clips and soundtracks, acquired by film or television producers for the purpose of being copied into a second production such as a motion picture, or TV show where the second production is for:

- public broadcast by a licensed radio or television broadcaster;
- exhibition in a movie theatre or similar venue; or
- sale or lease.

Motor Fuel Tax Act

Penalty for Unauthorized Uses of Coloured Fuel

Effective February 16, 2005, persons who purchase or use coloured fuel for an unauthorized purpose are subject to a penalty equal to three times the clear fuel tax that would have been paid had the fuel not been coloured. This penalty is in addition to an assessment for the difference between the coloured fuel tax paid and the tax that would have been paid had the fuel not been coloured.

The penalty does not apply to the use of coloured fuel to operate unlicensed motor vehicles used in logging or mineral mining operations while operating off highway. Coloured fuel used in such vehicles is allowed under the Act provided the difference between the coloured fuel tax paid and the tax that would have been paid for clear fuel is remitted to the province.

Clarify Uses of Coloured Fuel for Farmers

Effective February 16, 2005 the Act is amended to clarify that farmers may use coloured fuel in any unlicensed vehicle provided the vehicle is operated:

- on land classified as a farm under the *Assessment Act*; and
- operated by or on behalf of a farmer for farm purposes.

Coloured fuel may also be used when a farm vehicle is proceeding to or returning from a farm location where the use of coloured fuel is otherwise authorized under the Act.

The authorization applies to any unlicensed farm vehicles, such as threshers, combines, loaders, ATVs and snowmobiles as long as they are operated under the conditions outlined above.

Tobacco Tax Act

Provide the Authority to Seize Stolen Tobacco Products

The Act is amended to provide appropriate officials with the authority to seize tobacco products that were not purchased from an authorized wholesaler. The quantity of seized products can be up to a maximum of 1,000 grams (50 cartons).

This authority parallels the existing authority to seize tobacco that does not bear the province's mark, that bears the mark of another jurisdiction or was marked by a person authorized to do so by the director.

The amendment comes into force on Royal Assent.

Revise the Definition of Package

The *Tobacco Tax Act Regulations* are amended to revise the definition of "package" in relation to fine cut (loose) cigarette tobacco to increase the container size to 500 grams from 300 grams.

Increasing the package size ensures that packages up to 500 grams are required to be appropriately marked. The marking program provides a means of identifying tobacco acquired through the legitimate wholesale/retail chain and assists in curtailing tax losses from illicit tobacco trade.

School Act

Provincial Residential School Property Tax Rates

In general, a separate residential tax rate is set for each school district. For the 2005 calendar year, average residential school property taxes before application of the home owner grant will be increased by the provincial inflation rate from the previous year. For 2005 the increase will be 2.0 per cent. This follows the policy announced in *Budget 2003* and continued in *Budget 2004*.

Residential tax rates will be set in April when revised assessment roll data are available to calculate the rates according to the provincial residential school tax rate formula. Tax rates will fall in almost every school district in response to rising average assessed values. Even though the average residential school tax is increased by the rate of inflation, the change in individual tax bills will vary. Some homeowners will experience an increase in their school taxes, while others will have reductions. The variation in individual tax bills will occur because changes in the assessed value of any individual property are likely to differ from changes in average provincial and school district assessed values.

Provincial Non-Residential School Property Tax Rates

A single, province-wide rate is set for each of the seven non-residential property classes. These tax rates have remained unchanged since 1999.

In response to increases in assessed values, the rates for 2005 will be adjusted so that the change in total non-residential school tax revenues will be limited to inflation plus new construction. This adjustment to rates may differ by property class to reflect differences in relative changes in assessed values by class. The rates will be set when revised assessment roll data are available.

Taxation (Rural Area) Act

Provincial Rural Property Tax Rates

A single provincial rural residential tax rate applies province-wide. For the 2005 calendar year, the provincial rural residential tax rate will fall in response to rising average assessed values consistent with policy introduced in *Budget 2003*; average residential provincial rural area taxes will increase by the provincial inflation rate of 2.0 per cent.

Non-residential provincial rural tax rates will be adjusted so that the change in total non-residential rural area tax revenues will be limited to inflation plus new construction.

Insurance Premium Tax Act

Exemption for Out-of-Province Non-Profit Health Insurers

The *Insurance Premium Tax Act and Regulations* are amended to provide a tax exemption for health care premiums received by non-profit extra-provincial health insurance corporations for medical service and health care plans contracted with BC residents. For the premiums to be exempt, non-profit extra-provincial health insurers must be licensed to carry on insurance business in BC under the *Financial Institutions Act*. The exemption is retroactive to January 1, 1997.

Power to Inspect Records

The Act is amended to provide the Commissioner of Income Tax, or other authorized officer of the Ministry of Provincial Revenue, with the authority to access books or records of taxpayers and insurance agents. In addition, authority is provided to make inquiries of any person regarding a specific taxpayer for the purpose of administering or enforcing the tax. The Commissioner may also request information from a person relating to an unnamed taxpayer if the person is an insurance agent or insurance sales person or if a court order has been granted.

In addition, the Act is amended to provide the Commissioner or authorized officer of the Ministry of Provincial Revenue with the authority to:

- require taxpayers and insurance agents to keep adequate records;
- specify what records taxpayers and insurance agents must keep; and
- attend a place of business to inspect the books and records to verify a return required under the Act.

Definition of Taxpayer

Effective February 15, 2005, the Act is amended to clarify that, for the purposes of the definition of a "taxpayer", a corporation or partnership is resident in British Columbia if the corporation or partnership has a permanent establishment in the province at the time the premium for a contract of insurance with an unlicensed insurer becomes payable. Permanent establishment under the Act has the same meaning as the *Income Tax Act (Canada)*. This ensures that insurance premiums relating to risks in respect of persons resident or property located in the province are subject to tax.

Exemption for Real Estate Insurance Organizations

The Act is amended to clarify that persons who are licensees under the *Real Estate Services Act* pay no tax on:

- insurance premiums paid under an insurance contract with the Real Estate Errors and Omissions Insurance Corporation; or
- assessments levied for the Real Estate Special Compensation Fund by the Real Estate Compensation Fund Corporation.

International Financial Activity Act

Expansion of Appeal Provisions to Include Registration Date and Registration Refusal

The *International Financial Activity Act* (IFA) is amended to clarify that a corporation or specialist has the right to appeal the commissioner's decision to refuse registration of the corporation or specialist under the international financial activity tax refund program (IFP). Under the IFP, a corporation or specialist must obtain registration to qualify for an income tax refund.

The Act is also amended to clarify that a corporation or specialist can appeal the effective date of registration. The registration date is important because a claimant can only earn an income tax refund under the program from the date of registration. As such, if a claimant does not agree with the registration date that the Ministry of Provincial Revenue determines, they may appeal.

Change of Name for IFC Society

Effective February 16, 2005, the definition of "society" is amended to change the name "IFC International Financial Centre Society of Vancouver" to "International Financial Centre British Columbia Society" to reflect the recent change in the society's name.

Hotel Room Tax Act

Exemption for Industrial Camps

Effective February 16, 2005, lodging in industrial camps is exempt from tax.

Industrial camps are facilities that provide accommodation in bunkhouses, trailers or other structures that:

- are operated by or on behalf of an employer or by a person under contract with an employer, and
- are operated for the purpose of providing lodging exclusively (more than 90 per cent) to employees or other persons engaged by the employer when those persons are performing work or services for the employer.

Industrial camps are generally located in remote areas and may occasionally provide lodging to backpackers or other transient tourists. Tax does not apply to the charge on such accommodation provided that over 90 per cent of the time the camp is used to provide lodging to persons performing work for the employer.

The exemption does not apply where an employer rents rooms for employees in hotels, motels, resorts or other accommodation facilities.

Health Authorities Act

Property Tax Exemptions For Public Hospitals Managed Directly or as a Public-Private Partnership

The Act is amended to clarify that property tax exemptions apply to public hospitals managed directly or as a public-private partnership in the following situations:

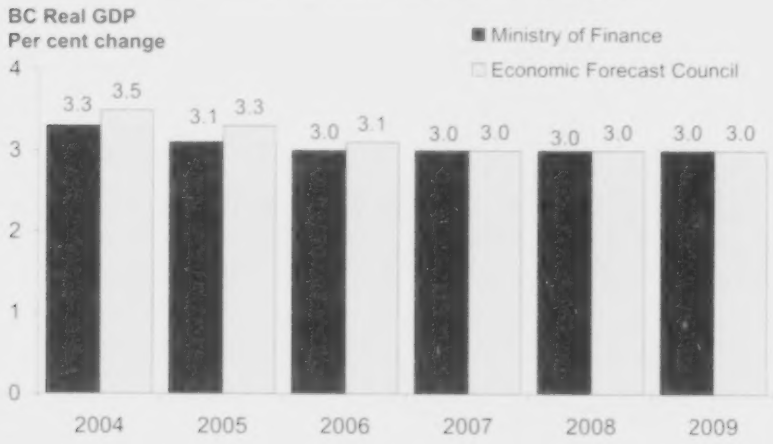
- property held or occupied for future hospital use;
- space occupied by organizations on behalf of the Health Authority that is used for Health Authority purposes;
- space occupied by not-for-profit organizations that would be exempt under another act if they were the owner; and
- space occupied and used for teaching purposes by physicians who have academic appointments with the medical faculty of the University of British Columbia and are credentialed members of the teaching hospital.

Part 3: BRITISH COLUMBIA ECONOMIC REVIEW AND OUTLOOK[1]

Overview

Following estimated growth of 3.3 per cent in 2004, the British Columbia economy is forecast to grow 3.1 per cent in 2005 and 3.0 per cent in 2006. As has been the practice of the Ministry of Finance, this forecast is slightly more conservative than that of the Economic Forecast Council, a group of private sector economists who provide independent advice to the Minister of Finance on the provincial economic outlook. The council forecasts growth in British Columbia of 3.3 per cent in 2005 and 3.1 per cent in 2006. Both the Ministry of Finance and the Economic Forecast Council expect the British Columbia economy to grow 3.0 per cent per year in the 2007 to 2009 period (see Chart 3.1). A topic box at the end of Part Three reports on the consultation with the Economic Forecast Council.

Chart 3.1 British Columbia's outlook continues to brighten



In 2004, the British Columbia economy continued a broadly based recovery and was one of the fastest growing provinces in many sectors. The Ministry of Finance estimates that the BC economy posted 3.3 per cent growth for 2004, ahead of last year's budget forecast of 2.8 per cent growth. Stronger than anticipated consumer spending, investment and government expenditures more than offset a somewhat weaker than expected external trade sector.

Recent Developments

The performance of key BC economic indicators in recent quarters is presented in Table 3.1.

Both employment and retail sales showed positive growth in the October to December quarter of 2004. For the year, employment recovered strongly from negative growth in the January to March quarter to record annual growth of 2.3 per cent for 2004. The unemployment rate has been below 7.0 per cent for the past five months, and was 6.5 per cent in January 2005. Retail sales growth was robust, increasing 6.4 per cent on a year-to-date basis to November.

[1] Reflects information available as of February 7, 2005. All annual and quarterly references are for the calendar year.

Housing starts saw growth in excess of 20 per cent for the third straight year in BC, rising 25.8 per cent in 2004. Both manufacturing shipments and exports weakened in the final quarter of 2004, as the high Canadian dollar started to dampen the value of shipments. Due to strong gains at the beginning of the year, manufacturing shipments were up 12.7 per cent year-to-date to November. The value of merchandise exports peaked in May 2004 and fell throughout the rest of the year. The strength in exports earlier in the year resulted in an increase of 10.6 per cent during the first eleven months of 2004, relative to the same period in 2003. Non-residential building permits increased 12.4 per cent in 2004, primarily due to growth in commercial and industrial construction. While these indicators show a strong performance for the BC economy overall in 2004, several key economic indicators slowed in the final three months of 2004.

Table 3.1 British Columbia Economic Indicators

All data seasonally adjusted	Third Quarter July to Sept. 2004 change from Apr. to Jun. 2004	Fourth Quarter Oct. to Dec. 2004 change from July to Sept. 2004	Year-to-Date Jan. to Dec. 2004 change from Jan. to Dec. 2003
		Per cent change	
Employment	+0.8	+0.7	+2.3
Manufacturing Shipments	+3.1	-0.5*	+12.7*
Exports	+1.4	-5.6*	+10.6*
Retail Sales	+1.7	+0.5*	+6.4*
Housing Starts	-2.6	-5.0	+25.8
Non-Residential Building Permits	+5.7	+2.9	+12.4

Source: Statistics Canada; BC Stats

* Data available to November only

The Outlook for the External Environment

The U.S. economic recovery picked up steam in 2004, posting annualized growth of 4.0 per cent in the third quarter and 3.1 per cent in the fourth quarter. Real consumer spending was an important driver of growth, rising 4.6 per cent on an annualized basis in the final quarter of 2004. Business investment was also up substantially in the fourth quarter due to strong capital equipment spending. Real exports declined in the October to December period of 2004 and the trade deficit was the biggest drag on fourth quarter U.S. GDP.

Overall, the U.S. economy grew by 4.4 per cent in 2004, up substantially from 3.0 per cent in 2003. At the end of 2004, falling oil prices and gains in employment supported improved consumer confidence. Retail sales in the U.S. rose 7.6 per cent in 2004. While the U.S. labour market showed some signs of strength in 2004, it was not able to generate the steady pace of growth consistent with an expanding economy. The construction industry was one of the labour market highlights, increasing by 265,000 jobs or 3.4 per cent during the year. Residential construction in the U.S. increased 5.1 per cent in 2004, reaching 1.9 million units. However, analysts expect employment in construction to decline in 2005 as the U.S. housing market slows.

After the 4.4 per cent growth seen in 2004, the January *Consensus Economics* survey expects U.S. real GDP growth of 3.6 per cent in 2005 and 3.4 per cent in 2006. The consensus outlook for 2005 has been improving for the U.S. over the past two months. The pace of growth in the U.S. for 2005 is expected to ease from the strength of 2004 but remain robust, as the weaker U.S. dollar boosts exports and the manufacturing sector picks up.

The Ministry of Finance assumes U.S. economic growth of 3.2 per cent in 2005, somewhat below the current 3.6 per cent consensus. In 2006, U.S. growth is expected to moderate to 3.0 per cent in the Ministry of Finance forecast, while the January consensus survey predicts more robust growth of 3.4 per cent for the year. Over the medium-term, the Ministry of Finance assumes that the U.S. economy will grow at a rate of about 3.0 per cent per year. The Ministry of Finance's growth assumptions are somewhat lower than the consensus, reflecting the risk surrounding the sustainability of the U.S. economic recovery and the twin fiscal and current account deficits.

Table 3.2 Ministry of Finance Economic Forecast: Key Assumptions

		Forecast				
	2004	2005	2006	2007	2008	2009
	Per cent change unless otherwise noted					
Canada Real GDP	2.7 e	2.7	2.7	3.0	3.0	3.0
U.S. Real GDP	4.4	3.2	3.0	3.0	3.0	3.0
Japan Real GDP	2.7 e	0.8	1.5	1.5	1.5	1.5
Europe Real GDP	1.8 e	1.5	1.8	2.0	2.0	2.0
Short-term Interest Rates[1]	2.2	2.7	3.4	4.1	4.9	5.0
Long-term Interest Rates[2]	4.6	4.7	5.0	5.5	6.0	6.0
U.S. cents / Canadian dollar	76.8	84.4	83.0	83.0	83.0	83.0

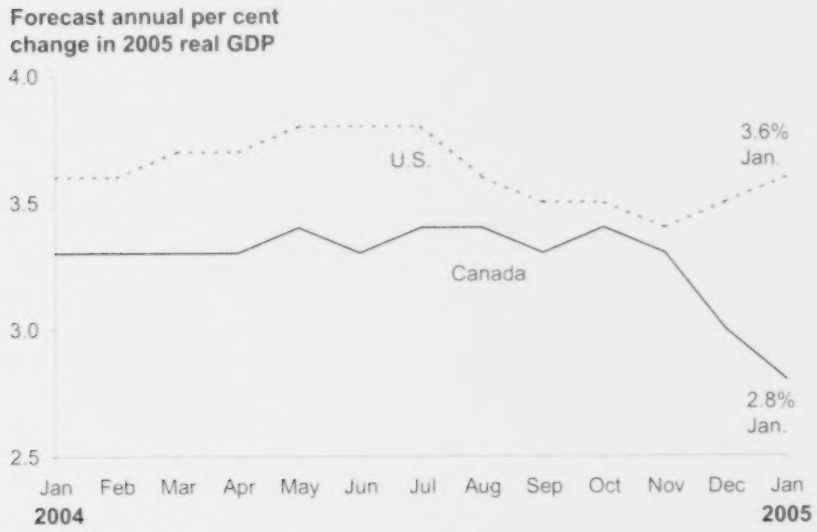
e Ministry of Finance estimate [1] Canada 3-month treasury bills. [2] Government of Canada 10-year bonds.

The rapid appreciation of the Canadian dollar relative to the U.S. dollar dampened Canadian economic growth in 2003; real GDP growth was 2.0 per cent. In 2004, the Canadian dollar was once again a factor for the Canadian economy and growth is expected to soften in the final quarter. Weakness in the manufacturing and export sectors is anticipated for the final three months of 2004.

Employment in Canada continued to be robust in 2004 with the construction industry posting strong job gains. The manufacturing sector continued to perform poorly, especially in the second half of the year when the Canadian dollar appreciated quickly. Overall, the Canadian economy added 284,600 jobs in 2004, an increase of 1.8 per cent. Low interest rates continued to drive up the housing market in 2004 and Canadian housing starts totalled 233,431 units for the year. Canadian retail sales increased 4.5 per cent over the first eleven months of 2004, compared to the same period in 2003. Much of the strength was seen in furniture and home improvement stores while auto sales continued to dampen growth. Retail sales excluding autos and parts were up 6.1 per cent during the first eleven months of 2004 relative to the same period the previous year.

The *Consensus Economics* survey downgraded Canadian growth expectations for 2005 in their past three monthly surveys. Forecasters lowered their growth forecasts on average to reflect lower exports resulting from the appreciation in the Canadian dollar, as well as weakness in the manufacturing sector. The January survey calls for growth of 2.8 per cent for 2005 and 3.0 per cent for 2006. The Ministry of Finance forecast is slightly more conservative than the consensus, and assumes that the Canadian economy will underperform the U.S. economy over the next two years, with growth of 2.7 per cent in both 2005 and 2006.

Chart 3.2 Consensus outlook for Canada falls



Source: Consensus Economics
The chart above represents forecasts for real GDP growth in 2005 as polled on specific dates. For example, forecasters surveyed on January 10, 2005 had an average U.S. growth forecast of 3.6 per cent.

The Japanese economy started 2004 with strong growth but economic conditions have deteriorated over the course of the year. January's *Consensus Economics* survey predicts economic growth in Japan will slow from an estimated 2.9 per cent in 2004 to 1.1 per cent for 2005 and 1.9 per cent in 2006. The Ministry of Finance is assuming slightly lower growth of 0.8 per cent in 2005, rising to 1.5 per cent in 2006.

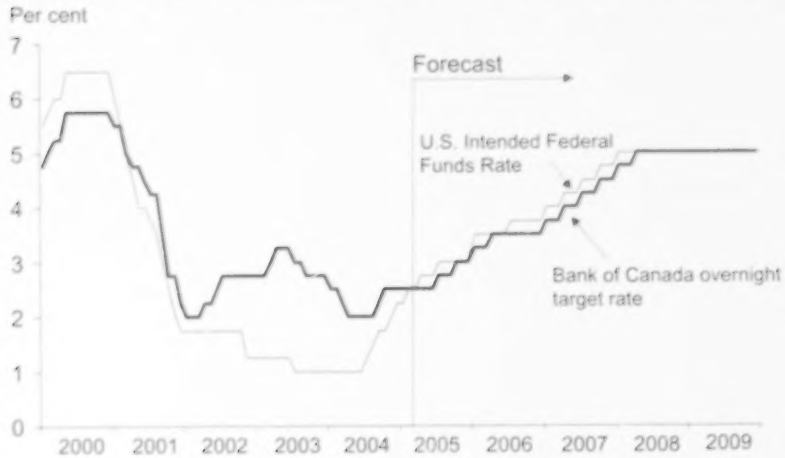
In 2004, China's GDP growth was 9.5 per cent with robust exports and agricultural production. China attempted to restrain growth by raising interest rates and putting in place economic controls to cool investment over the past year. While growth is expected to slow somewhat in 2005, further interest rate hikes or some adjustment of the currency may be needed.

Germany's economy continues to struggle as the long-awaited turnaround in consumer spending has failed to materialize and employment continues to stagnate. The poor performance of Europe's largest economy will impact the overall growth prospects for Europe in the near-term. The Ministry of Finance forecasts growth of 1.5 per cent in 2005 and 1.8 per cent in 2006 for Europe.

Financial Markets

The U.S. federal funds rate was held at 1.00 per cent for the first half of 2004. Starting at the end of June, the Federal Reserve Board raised this key target interest rate by 25 basis points at each of their next five meetings, up to 2.25 per cent by the end of 2004. The Bank of Canada ended their easing cycle in April of 2004 by lowering the target overnight rate to 2.00 per cent. The Bank of Canada sat on the sidelines through the summer, and only started raising interest rates in the fall with 25 basis point increases at both their September and October meetings. The target for the overnight rate in Canada ended 2004 at 2.50 per cent.

Chart 3.3 Short-term interest rates to rise faster in the U.S. than Canada



Sources: Bank of Canada and U.S. Federal Reserve Bank, Ministry of Finance forecasts.

At their February 2nd meeting the Federal Reserve Board raised its key target interest rate by 25 basis points to 2.50 per cent. There was no change in their risk assessment, stated as "roughly equal" by the committee in terms of upside and downside risks for both sustainable growth and price stability. This latest move by the Federal Reserve eliminates the gap between the target interest rates for Canada and the U.S., as they are both 2.50 per cent.

Outlook

Consistent with private sector forecasts, the Ministry of Finance assumes that the U.S. federal funds rate will rise at a measured pace, to remove monetary stimulus from the economy. Despite high energy prices and a lower U.S. dollar, the rise in interest rates should keep inflationary pressures in check.

Canadian growth expectations are weaker than for the U.S. and most analysts predict that the Bank of Canada will stay on the sidelines for the near-term. This would result in the short-term interest rate spread between Canada and the U.S. becoming negative early in 2005. Canadian interest rates are also forecast to rise, although later and perhaps more slowly than in the U.S.

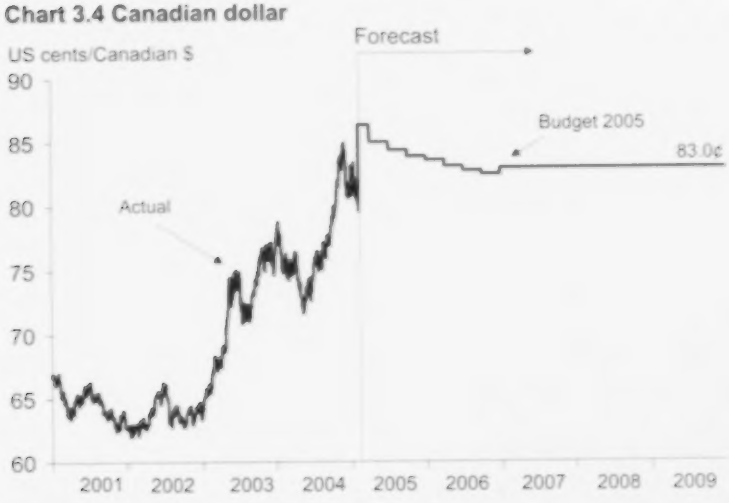
The Canadian three-month treasury bill rate is expected to average 2.7 per cent in 2005, rising to 3.4 per cent in 2006. Ten-year government bonds are forecast to average 4.7 per cent this year and 5.0 per cent in 2006. The Ministry of Finance outlook was based on the average of six private sector forecasts as of January 5, 2005.

Table 3.3 Private Sector Canadian Three Month Treasury Bill Interest Rate Forecasts

Average annual interest rate (per cent)	2005	2006
Global Insight	2.7	2.9
BMO	2.8	3.7
Nesbitt Burns	3.1	3.8
Scotiabank	2.5	NA
TD Economics	2.7	3.0
RBC Capital Markets	2.6	3.5
Average (as of January 5, 2005)	**2.7**	**3.4**
Budget 2005/06 Forecast	**2.7**	**3.4**

The Canadian dollar averaged 76.8 cents US in 2004, up from 71.4 cents in 2003 and ended the year strongly, averaging 82.0 cents US in December. The recent appreciation in the Canadian dollar was due in part to U.S. dollar weakness, resulting from concerns surrounding the ability of the U.S. to finance its large current account and budget deficits.

Chart 3.4 Canadian dollar



Sources: Bank of Canada and BC Ministry of Finance forecasts

Outlook

The weakness in the U.S. dollar is generally expected to continue, however, there are other factors that may constrain the Canadian dollar's appreciation. Overall, non-energy commodity prices are expected to decline in 2005, and the Canadian dollar has generally tracked commodity prices quite closely over the past decade. The interest rate spread between Canada and the U.S. is also likely to become less supportive of the Canadian dollar, as spreads are forecast to move into negative territory.

The private sector forecast of the Canadian dollar in 2005 averages 84.4 cents US, falling to 83.0 cents US in 2006. The Ministry of Finance exchange rate outlook is based on these private sector averages (see Table 3.4). As the interest rate spread between Canada and the U.S. is anticipated to remain small in the medium-term, the Canadian dollar is expected to continue at around 83.0 cents US for the 2007 to 2009 period.

Table 3.4 Private Sector Exchange Rate Forecasts

Average annual exchange rate (US cents/Can $)	2005	2006
Global Insight	83.2	82.3
BMO	83.0	80.9
Nesbitt Burns	85.7	85.2
Scotiabank	87.1	87.4
TD Economics	84.8	83.4
RBC Capital Markets	82.7	78.7
Average (as of January 5, 2005)	**84.4**	**83.0**
Budget 2005/06 Forecast	**84.4**	**83.0**

The British Columbia Outlook

After strong growth in 2004, the Ministry of Finance expects economic growth in British Columbia to outperform Canadian growth in 2005 at 3.1 per cent. Over the medium-term, economic growth in BC of 3.0 per cent is expected, reflecting robust exports, investment and productivity growth. This outlook is consistent with, but slightly lower than the Economic Forecast Council (see Table 3.5).

Table 3.5 British Columbia Economic Outlook

	2004	Forecast 2005	2006	2007	2008	2009
	Per cent change in real GDP					
Ministry of Finance Economic Forecast	3.3 [e]	3.1	3.0	3.0	3.0	3.0
Economic Forecast Council [1]	3.5	3.3	3.1	3.0	3.0	3.0

[e] Ministry of Finance estimate.
[1] Average of the thirteen members who provided forecasts. (The Council provided a single average annual growth rate for 2007 through 2009.)

Table 3.6 summarizes the Ministry of Finance's outlook for key economic indicators, while Tables 3.8.1 to 3.8.5 at the end of Part Three provide additional detail on the economic forecast.

Table 3.6 Ministry of Finance Economic Forecast: Key Economic Indicators

	2004	Forecast 2005	2006	2007	2008	2009
British Columbia Economic Indicators	Per cent change unless otherwise noted					
Real GDP	3.3 [e]	3.1	3.0	3.0	3.0	3.0
Nominal GDP	6.6 [e]	4.7	4.5	4.5	4.5	4.7
Employment	2.3	1.9	1.9	2.0	1.9	2.0
Unemployment Rate	7.2	7.2	7.2	7.1	7.1	6.9
Total Net In-migration (thousands of persons)	33.5 [1]	34.1	38.7	40.5	43.7	46.5
Personal Income	4.1 [e]	4.5	4.5	4.4	4.3	4.3
Corporate Pre-tax Profits	19.9 [e]	5.7	5.2	3.5	3.2	4.7
Housing Starts (thousands of units)	32.9	32.0	31.7	31.3	30.9	30.7
Retail Sales	6.5 [e]	5.2	4.9	4.8	4.7	4.7
Inflation Rate	2.0	2.0	2.0	2.0	2.0	2.0
B.C. Goods and Services Export Price Deflator	4.2 [e]	-2.1	0.8	0.6	0.8	1.3

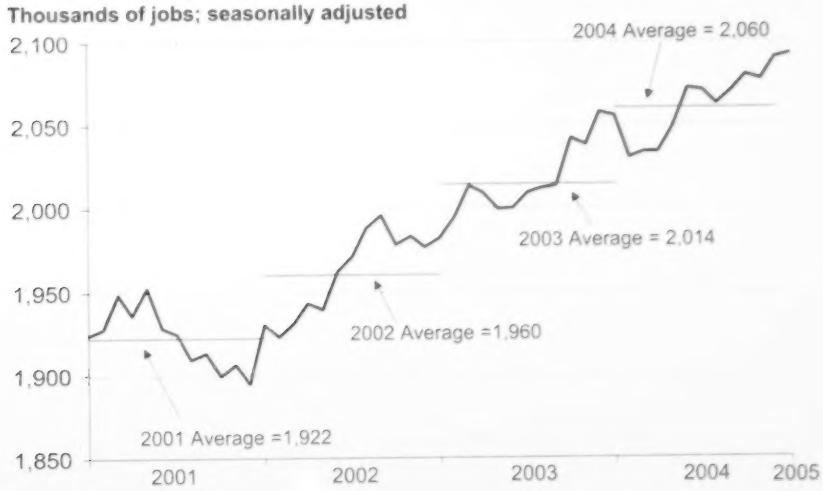
[e] Ministry of Finance estimate. [1] BC STATS estimate.

The Labour Market

Employment growth in British Columbia was robust in 2004 averaging 2,059,700 persons employed, an increase of 2.3 per cent from 2003. The 45,500 jobs created in 2004 represent an increase in full-time employment of 63,500 jobs offset by a decline in part-time employment of 18,000 jobs. Job growth in British Columbia was broadly based, with both goods and services sectors expanding in 2004. The unemployment rate in British Columbia averaged 7.2 per cent in 2004, down from 8.0 per cent in 2003 as growth in employment outweighed growth in the labour force.

Chart 3.5 Employment robust in 2004

Thousands of jobs; seasonally adjusted



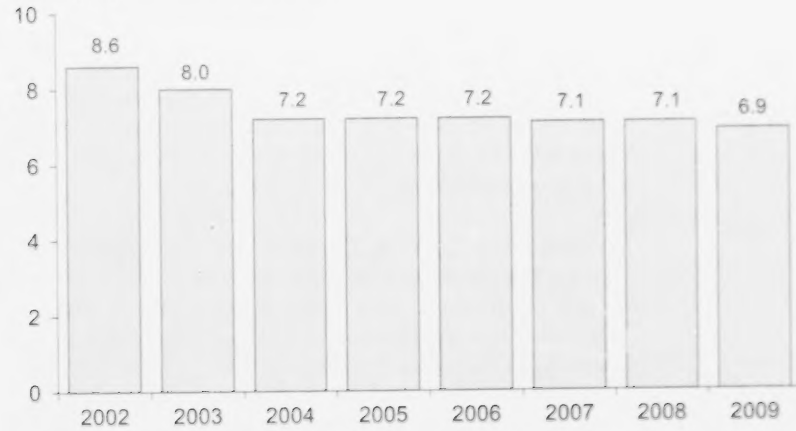
Source: Statistics Canada

Outlook

Employment is forecast to increase by 1.9 per cent in both 2005 and 2006, adding about 40,000 jobs in each year. The labour force is expected to grow at about the same pace as employment for 2005 and 2006, resulting in a steady unemployment rate of 7.2 per cent for these two years. Over the medium-term, the unemployment rate is forecast to decline gradually.

Chart 3.6 Unemployment rate forecast trending down

Unemployment rate; per cent



Sources: Statistics Canada and BC Ministry of Finance forecast

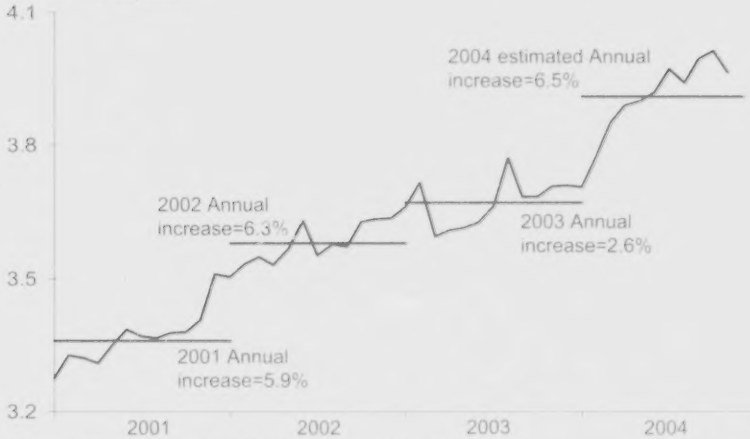
Domestic Demand

Consumer Spending and Housing

Retail sales picked up in 2004 with the increase largely being driven by the strong housing market as much of the strength was seen in furniture, home electronics and appliances as well as home improvement stores. The value of total retail sales rose 6.4 per cent in the first eleven months of 2004 relative to the same period of 2003. In addition to furniture and home-related purchases, the value of fuel sales increased substantially over the first eleven months of 2004, reflecting higher market prices for gasoline.

Chart 3.7 Retail sales pick up in 2004

Total retail sales, $billions; seasonally adjusted



Sources: Statistics Canada and Ministry of Finance estimate

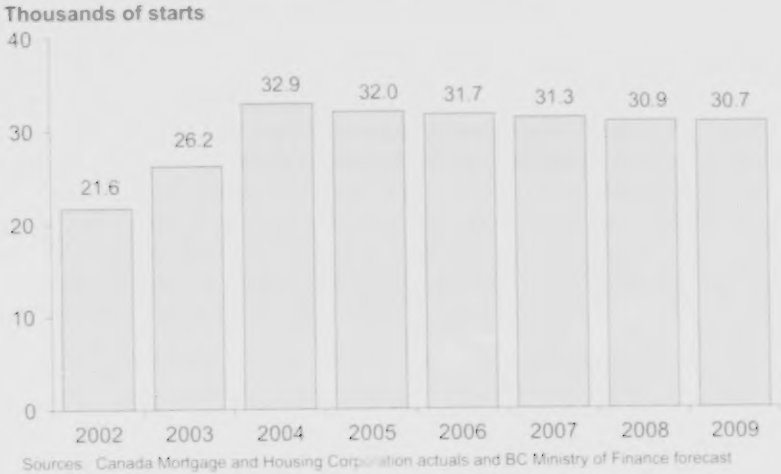
Housing starts posted another strong performance in 2004 with continued low mortgage rates and robust employment gains supporting growth in demand. British Columbia housing starts totaled 32,925 units in 2004, a 25.8 per cent increase over the previous year.

Outlook

Consumer spending on goods and services adjusted for inflation is forecast to increase 3.3 per cent in 2005. Steady growth in employment and personal income will support consumer demand for goods and services this year. In 2006, further growth of 3.2 per cent is expected in real consumer spending, followed by growth of 2.9 per cent on average over the medium-term. Retail sales are forecast to rise 5.2 per cent in 2005, followed by growth of 4.9 per cent in 2006.

Housing starts in British Columbia are expected to ease off gradually over the forecast period as interest rates rise and demand becomes satiated. Housing starts are forecast to total about 32,000 units in 2005, falling to 31,700 units in 2006. Over the medium-term housing starts are forecast to decline gradually reaching 30,700 units by 2009.

Chart 3.8 Housing starts ease from current high

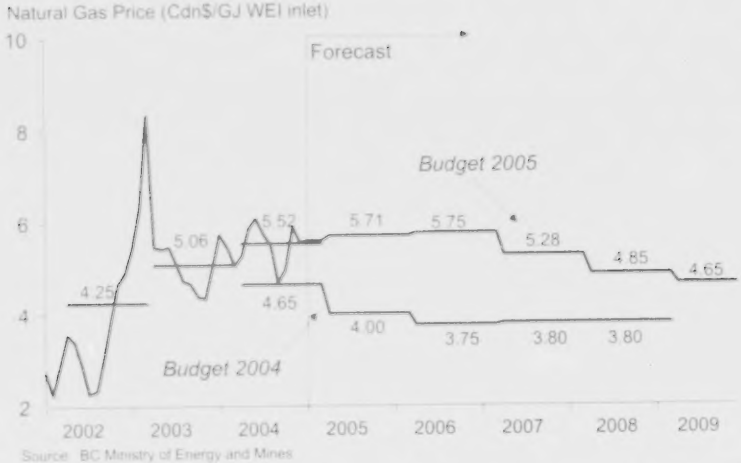


Sources: Canada Mortgage and Housing Corporation actuals and BC Ministry of Finance forecast

External Trade and Commodity Markets

The value of BC's merchandise exports rose 10.6 per cent in the first eleven months of 2004, relative to the same period of 2003. The effects of a higher Canadian dollar on forestry exports were offset by high lumber prices, resulting in an increase of 16.5 per cent in forestry exports year-to-date to November. Lumber prices were up 46.0 per cent on average for 2004 compared to the previous year. The spruce-pine-fir price hit a high of US$465 in the first week of May but was back down to US$361 by the end of the year. However, energy exports fell 5.1 per cent during the first eleven months of 2004 compared to the same period the previous year, as gas volumes declined and the value of electricity exports fell. The value of merchandise exports excluding forestry increased 6.2 per cent year-to-date to November, reflecting strength in other export commodities such as industrial goods.

Chart 3.9 Natural gas prices



Source: BC Ministry of Energy and Mines

Canadian natural gas prices continued to be volatile over the course of 2004, with the highest price of $6.1C/GJ occurring in June followed by a low of $4.7C/GJ in September. However, on average for 2004 the natural gas price increased a relatively moderate 1.7 per cent. Natural gas prices generally follow oil prices, however in 2004 favourable weather conditions kept storage levels high, dampening this effect significantly. Without this mitigating factor, most analysts agree that natural gas prices could have been much higher in 2004.

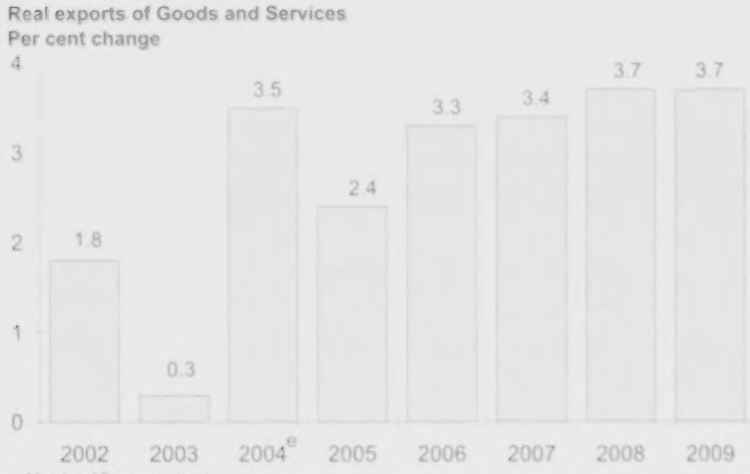
Coal prices were strong in 2004, driven largely by China's rapid economic growth and import demand. Increased demand for steel in turn raised demand for coal, supporting higher coal prices.

Overall, the average price of British Columbia goods and services exports grew an estimated 4.2 per cent in 2004 helping to offset the impact of a higher Canadian dollar on BC exporters.

Outlook

Real exports of goods and services are expected to increase 2.4 per cent in 2005. This is somewhat lower growth than the 3.5 per cent seen in 2004, reflecting the higher Canadian dollar combined with a decline in export prices and easing of Japanese demand. Real export growth is forecast to increase after 2005, consistent with economic growth in BC's trading partners and improving export prices.

Chart 3.10 Higher Canadian dollar and lower commodity prices reduce export growth in 2005



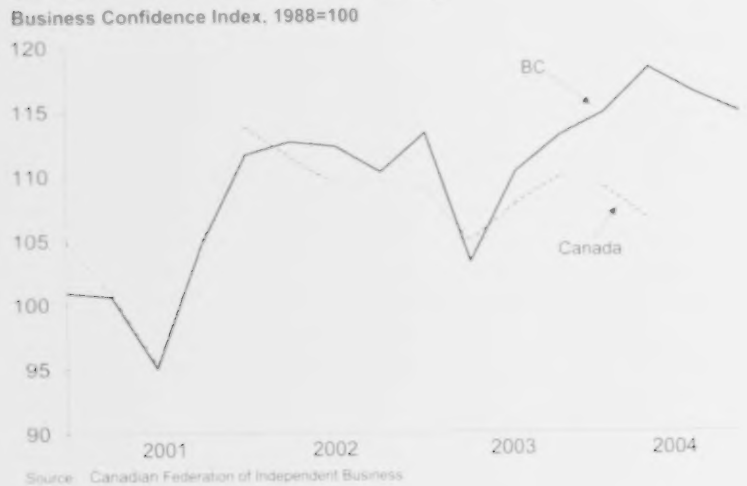
e Ministry of Finance estimate
Sources: Statistics Canada and BC Ministry of Finance forecast

The average price of British Columbia goods and services exports is forecast to decline 2.1 per cent in 2005, as key commodity prices, such as lumber, ease off from high levels and the stronger Canadian dollar reduces the value of exporters sales. Natural gas prices are forecast to level off at C$4.65/GJ in the medium-term. Spruce-pine-fir prices are expected to average US$319 per thousand board feet in 2005 and US$300 through the remainder of the forecast period. The average export price is expected to pick up moderately over the medium-term as commodity prices stabilize and the Canadian dollar remains around 83.0 cents US.

Business and Government

Business investment (including residential) adjusted for inflation is estimated to have expanded 8.1 per cent in 2004, building on robust growth in 2003 of 7.4 per cent. While much of the growth in business investment was driven by strong residential investment, which is estimated to have increased 10.8 per cent in 2004, investment in both machinery and equipment as well as non-residential investment also saw robust growth. Business confidence in BC remained strong in 2004, remaining above Canada as a whole.

Chart 3.11 BC Business confidence high



Source: Canadian Federation of Independent Business

Machinery and equipment investment benefited from the higher Canadian dollar, rising an estimated 5.4 per cent in 2004, as costs were lower for industries importing equipment from the U.S. Non-residential construction saw an estimated increase of 6.8 per cent last year. Corporate profits in British Columbia grew 11.2 per cent in 2003, and are estimated to have another strong year in 2004 with growth of 19.9 per cent expected.

Local, provincial and federal government combined spending is estimated to have increased 2.3 per cent in 2004 in inflation-adjusted terms.

Outlook

Total investment in British Columbia is forecast to grow 5.5 per cent in 2005 and 5.1 per cent in 2006. This growth reflects the machinery and equipment and non-residential investment sectors gaining strength to offset the easing of residential investment, as well as public sector investment in capital projects. Over the medium-term, total investment in British Columbia is expected to average growth of 4.9 per cent.

Combined spending by the three levels of government in inflation-adjusted terms is expected to grow 3.1 per cent in 2005 and increase 0.8 per cent in 2006. Over the medium-term, inflation-adjusted government spending is forecast to rise 1.9 per cent on average per year.

Inflation

Consumer price inflation in both BC and Canada began 2004 quite low, but high fuel prices drove up inflation over the summer months and into the winter before falling in December. In Canada, overall consumer price inflation averaged 1.9 per cent in 2004, a significant decrease from the 2.8 per cent rate of inflation seen in 2003. The slowdown in the average annual rate of inflation in 2004 was due mainly to a much smaller increase in automotive vehicle insurance premiums during the year, as well as a decline in natural gas and computer equipment and supplies prices. British Columbia experienced similar consumer price inflation to Canada as a whole in 2004; inflation averaged 2.0 per cent for the year.

Outlook

Consumer price inflation in British Columbia and Canada is expected to continue to average 2.0 per cent per year over the forecast period, in line with the Bank of Canada's inflation target.

Risks to the Economic Outlook

The economic outlook has risks on both the upside and downside. The most significant risks to the British Columbia outlook remain the volatility of the Canadian dollar and sustainability of the U.S. economic recovery.

The British Columbia economy could grow faster than forecast if:

- The Canadian dollar falls significantly below the current forecast.
- The U.S. economy resumes a higher growth path.
- A lasting resolution to the softwood lumber dispute is reached; alongside growing U.S. demand, this would provide an opportunity for further growth in British Columbia's forest industry.
- British Columbia business confidence and investment strengthen further; this would provide a base for stronger economic growth in the province.
- Interprovincial net in-migration strengthens further; this would generate additional demand for goods and services and boost economic growth.
- Visitors to BC increase as Vancouver gains further international recognition as a tourism destination through promotion of the 2010 Winter Olympics.

Alternatively, the British Columbia economy could grow slower than forecast if:

- The Canadian dollar movements become increasingly volatile or the dollar appreciates rapidly above the current forecast.
- Oil prices rise and are sustained at a high level, dampening North American growth prospects.
- Interest rates in the U.S. and Canada rise more quickly than forecast.

- Commodity prices decline more sharply than forecast or become more volatile.
- The recent monetary tightening, as well as the effects of high oil prices on China, slows the Chinese economy significantly.
- Geopolitical uncertainty accelerates due to events in the Middle East or further terrorist attacks in the U.S.

Table 3.7 British Columbia Economic Review

	Actual 2003	Budget 2004 Forecast 2004	Actual/ Estimate 2004
	Per cent change unless otherwise noted		
Real Gross Domestic Product (per cent change)	2.5	2.8	3.3 [1]
Consumer Expenditure	3.3	3.1	3.9 [1]
Capital Investment	7.3	6.5	7.7 [1]
Government Expenditure	2.0	-1.6	2.3 [1]
Exports of Goods and Services	0.3	4.2	3.5 [1]
Imports of Goods and Services	3.7	4.2	5.2 [1]
Inventory Investment (change in billions of constant 1997 dollars)	0.8	1.0	0.7 [1]
B.C. Economic Forecast Council - Real GDP growth	2.5	2.9	3.5
Gross Domestic Product (current dollars; per cent change)	5.2	4.6	6.6 [1]
Population July 1 (per cent change)	0.9	0.9	1.1
Total Net In-migration (persons)	31,660	28,744	33,522 [2]
Interprovincial	3,747	5,000	7,000 [2]
International	27,913	23,744	26,522 [2]
Labour Force (thousands of persons)	2,191	2,236	2,219
(per cent change)	2.2	1.6	1.3
Employment (thousands of persons)	2,014	2,059	2,060
(per cent change)	2.8	1.8	2.3
Unemployment Rate (per cent)	8.0	7.9	7.2
Retail Sales (millions of current dollars)	44,034	42,905	46,894 [1]
(per cent change)	2.6	4.4	6.5
Labour Income [3] (millions of current dollars)	75,141	77,240	78,333 [1]
(per cent change)	3.2	4.3	4.2
Corporate Pre-tax Profits (millions of current dollars)	12,568	11,403	15,070 [1]
(per cent change)	11.2	6.8	19.9
Housing Starts (units)	26,174	26,949	32,925
(per cent change)	21.0	3.0	25.8
Consumer Price Index (1992 = 100)	120.4	122.4	122.8
(per cent change)	2.1	1.6	2.0
Key Assumptions:			
Economic Growth (per cent change)			
Canada	2.0	2.7	2.7 [1]
United States	3.0	4.1	4.4
Japan	2.5	1.5	2.7 [1]
Europe	0.5	1.5	1.8 [1]
Housing Starts (per cent change)			
Canada	6.5	-8.9	6.9
United States	8.3	-9.2	5.1
Japan	0.8	0.0	2.5
Industrial Production (per cent change)			
United States	0.0	4.0	4.1
Japan	3.1	3.5	5.1
Canadian Consumer Price Index (per cent change)	2.8	1.8	1.9
Canadian Interest Rates (per cent; annual average)			
3-month Treasury Bills	2.9	2.5	2.2
Government of Canada 10-year Bonds	4.8	4.9	4.6
United States Interest Rates (per cent; annual average)			
3-month Treasury Bills	1.0	1.2	1.4
Government 10-year Bonds	4.0	4.6	4.3
U.S. cents / Canadian Dollar (annual average)	71.4	79.0	76.8
BC Goods and Services Export Price Deflator (Cdn$; per cent change)	-1.0	-1.3	4.2 [1]

[1] Ministry of Finance estimate.
[2] *BC STATS* estimate.
[3] Wages, salaries and supplementary labour income.

Table 3.8.1 Gross Domestic Product: British Columbia and Canada

	2003	2004*	Forecast 2005	2006	2007	2008	2009
BRITISH COLUMBIA:							
Gross Domestic Product at Market Prices:							
- Real (1997 $ million; chain-weighted)	**133,600**	**137,952**	**142,161**	**146,364**	**150,793**	**155,371**	**160,030**
(% change)	**2.5**	**3.3**	**3.1**	**3.0**	**3.0**	**3.0**	**3.0**
- Current Dollar ($ million)	145,500	155,041	162,274	169,499	177,051	184,934	193,552
(% change)	5.2	6.6	4.7	4.5	4.5	4.5	4.7
- GDP Price Deflator (1997 = 100)	108.9	112.4	114.1	115.8	117.4	119.0	120.9
(% change)	2.6	3.2	1.6	1.5	1.4	1.4	1.6
Real GDP Per Person (1997 $; chain-weighted)	32,175	32,874	33,545	34,183	34,840	35,507	36,155
(% change)	1.6	2.2	2.0	1.9	1.9	1.9	1.8
Real GDP Per Employed Person (% change)	-0.3	1.0	1.1	1.0	1.0	1.1	1.0
Unit Labour Cost† (% change)	0.8	1.0	1.4	1.6	1.6	1.5	1.6
CANADA:							
Gross Domestic Product at Market Prices:							
- Real (1997 $ billion; chain-weighted)	1,096	1,126	1,157	1,188	1,224	1,261	1,299
(% change)	2.0	2.7	2.7	2.7	3.0	3.0	3.0
- Current Dollar ($ billion)	1,219	1,293	1,351	1,413	1,481	1,554	1,631
(% change)	5.3	6.1	4.5	4.6	4.8	4.9	4.9
- GDP Price Deflator (1997 = 100)	111.2	114.8	116.8	118.9	121.1	123.2	125.5
(% change)	3.2	3.3	1.7	1.8	1.8	1.8	1.9
Real GDP Per Person (1997 $)	34,629	35,245	35,887	36,545	37,309	38,122	38,955
(% change)	1.1	1.8	1.8	1.8	2.1	2.2	2.2
Real GDP Per Employed Person (% change)	-0.3	0.9	1.3	1.2	1.4	1.5	1.5

* British Columbia GDP figures for 2004 are Ministry of Finance estimates.

† Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

Table 3.8.2 Components of British Columbia Real GDP at Market Prices

	2003	2004[e]	Forecast 2005	2006	2007	2008	2009
			1997$ billion; chain-weighted				
Personal Expenditure on Goods and Services	85.2	88.6	91.4	94.4	97.2	99.9	102.6
(% change)	3.3	3.9	3.3	3.2	3.0	2.8	2.8
- Goods	36.6	38.5	39.7	40.9	42.0	43.1	44.3
(% change)	1.4	5.2	3.2	3.0	2.8	2.6	2.6
- Services	48.6	50.1	51.7	53.5	55.2	56.7	58.4
(% change)	4.7	3.0	3.3	3.4	3.1	2.9	2.9
Government Current Expenditures on Goods and Services	25.7	26.3	27.1	27.4	27.8	28.4	28.9
(% change)	2.0	2.3	3.1	0.8	1.7	2.0	2.0
Investment in Fixed Capital	27.4	29.5	31.1	32.7	34.2	36.1	37.8
(% change)	7.3	7.7	5.5	5.1	4.6	5.4	4.7
Final Domestic Demand	**138.2**	**144.2**	**149.5**	**154.1**	**158.8**	**163.8**	**168.8**
(% change)	**3.7**	**4.3**	**3.7**	**3.1**	**3.1**	**3.2**	**3.0**
Exports Goods & Services	60.3	62.4	63.9	66.0	68.2	70.8	73.4
(% change)	0.3	3.5	2.4	3.3	3.4	3.7	3.7
Imports Goods & Services	65.9	69.3	71.9	74.0	76.2	78.6	81.4
(% change)	3.7	5.2	3.7	2.9	3.0	3.2	3.4
Inventory Change	0.8	0.7	0.8	0.6	0.5	0.3	0.4
Statistical Discrepancy	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real GDP at Market Prices	**133.6**	**138.0**	**142.2**	**146.4**	**150.8**	**155.4**	**160.0**
(% change)	**2.5**	**3.3**	**3.1**	**3.0**	**3.0**	**3.0**	**3.0**

[e] Figures for 2004 are Ministry of Finance estimates.

Table 3.8.3 Components of Nominal Income and Expenditure

	2003	2004	Forecast 2005	2006	2007	2008	2009
Labour Income[1] ($ million)	75,141	78,333 [e]	81,864	85,620	89,602	93,695	98,054
(% change)	3.2	4.2	4.5	4.6	4.7	4.6	4.7
Personal Income ($ million)	116,125	120,941 [e]	126,356	132,032	137,790	143,736	149,988
(% change)	2.7	4.1	4.5	4.5	4.4	4.3	4.3
Corporate Profits Before Taxes ($ million)	12,568	15,070 [e]	15,930	16,752	17,333	17,895	18,739
(% change)	11.2	19.9	5.7	5.2	3.5	3.2	4.7
Retail Sales ($ million)	44,034	46,894 [e]	49,333	51,752	54,223	56,783	59,441
(% change)	2.6	6.5	5.2	4.9	4.8	4.7	4.7
Housing Starts	26,174	32,925	32,002	31,728	31,276	30,916	30,741
(% change)	21.0	25.8	-2.8	-0.9	-1.4	-1.2	-0.6
Residential Investment[2] ($ million)	10,694	12,191 [e]	12,766	13,450	14,201	15,017	15,987
(% change)	19.6	14.0	4.7	5.4	5.6	5.7	6.5
B.C. Consumer Price Index (1992 = 100)	120.4	122.8	125.3	127.8	130.3	133.0	135.7
(% change)	2.1	2.0	2.0	2.0	2.0	2.0	2.0

[e] Figures are Ministry of Finance estimates.

[1] Domestic basis; wages, salaries and supplementary labour income.

[2] Includes renovations and improvements.

Table 3.8.4 Labour Market Indicators

	2003	2004	Forecast 2005	2006	2007	2008	2009
Population (on July 1) (000's)	4,152	4,196	4,238	4,282	4,328	4,376	4,426
(% change)	0.9	1.1	1.0	1.0	1.1	1.1	1.2
Labour Force Population, 15+ Years (000's)	3,341	3,389	3,439	3,489	3,540	3,591	3,643
(% change)	1.2	1.5	1.5	1.5	1.5	1.4	1.4
Net In-Migration							
- International[1]	27,913	26,522[3]	25,100	26,687	27,542	28,724	30,499
- Interprovincial	3,747	7,000[3]	9,000	12,000	13,000	15,000	16,000
- Total	31,660	33,522[3]	34,100	38,687	40,542	43,724	46,499
Participation Rate[2] (%)	65.6	65.5	65.8	66.1	66.4	66.7	66.8
Labour Force (000's)	2,191	2,219	2,263	2,306	2,350	2,394	2,435
(% change)	2.2	1.3	2.0	1.9	1.9	1.9	1.7
Employment (000's)	2,014	2,060	2,099	2,139	2,182	2,224	2,268
(% change)	2.8	2.3	1.9	1.9	2.0	1.9	2.0
- Goods Sector Employment (000's)	401	422	433	445	459	472	486
(% change)	5.1	5.3	2.6	2.8	3.1	2.8	3.0
- Service Sector Employment (000's)	1,614	1,638	1,666	1,694	1,723	1,752	1,782
(% change)	2.2	1.5	1.7	1.7	1.7	1.7	1.7
Unemployment Rate (%)	8.0	7.2	7.2	7.2	7.1	7.1	6.9

* Figures are Ministry of Finance estimates.

[1] International migration includes net non-permanent residents and returning emigrants less net temporary residents abroad.

[2] Percentage of the population 15 years of age and over in the labour force.

[3] Figures are BC Stats estimates.

Table 3.8.5 Major Economic Assumptions

	2003	2004	Forecast 2005	2006	2007	2008	2009
Real GDP (billions)							
Canada (1997 $; chain-weighted)	1,096	1,126 e	1,157	1,188	1,224	1,261	1,299
(% change)	2.0	2.7	2.7	2.7	3.0	3.0	3.0
U.S.A. (1996 U.S.$; chain-weighted)	10,381	10,837	11,179	11,520	11,868	12,226	12,595
(% change)	3.0	4.4	3.2	3.0	3.0	3.0	3.0
Japan (1990 Yen)	546,412	561,350 e	565,682	574,340	582,731	591,492	600,270
(% change)	2.5	2.7	0.8	1.5	1.5	1.5	1.5
Europe[1] (% change)	0.5	1.8 e	1.5	1.8	2.0	2.0	2.0
Housing Starts[2] (000's)							
Canada	218	233	198	183	183	183	183
(% change)	6.5	6.9	-15.3	-7.4	0.0	0.0	0.0
U.S.A.	1,853	1,948	1,700	1,650	1,600	1,600	1,600
(% change)	8.3	5.1	-12.7	-2.9	-3.0	0.0	0.0
Japan	1,160	1,189	1,170	1,150	1,150	1,150	1,150
(% change)	0.8	2.5	-1.6	-1.7	0.0	0.0	0.0
Consumer Price Index							
Canada (1992=100)	122.3	124.6	127.0	129.6	132.2	134.8	137.5
(% change)	2.8	1.9	2.0	2.0	2.0	2.0	2.0
Canadian Interest Rates (%)							
3-Month Treasury Bills	2.9	2.2	2.7	3.4	4.1	4.9	5.0
Long-Term Government Bonds (10 year)	4.8	4.6	4.7	5.0	5.5	6.0	6.0
United States Interest Rates (%)							
3-Month Treasury Bills	1.0	1.4	2.9	3.6	4.4	5.0	5.0
Long-Term Government Bonds (10 year)	4.0	4.3	4.7	5.1	5.5	6.0	6.0
Exchange Rate (U.S. cents / Canadian $)	71.4	76.8	84.4	83.0	83.0	83.0	83.0
British Columbia Goods and Services Export Price Deflator (% change)	-1.0	4.2 e	-2.1	0.8	0.6	0.8	1.3

e Figures are Ministry of Finance estimates.

[1] Euro zone (12) is Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

[2] British Columbia housing starts appear in Table 3.8.3

The Economic Forecast Council, 2005

Introduction

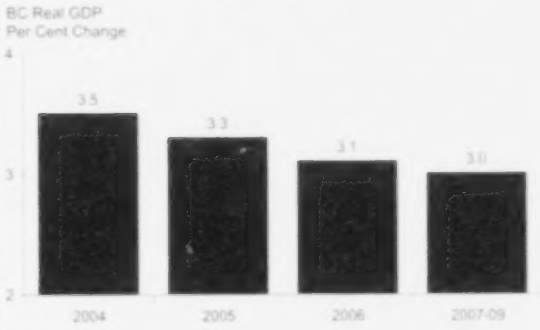
Every year, the Minister of Finance seeks the advice of the Economic Forecast Council (the Council) on the outlook for the provincial economy prior to the annual budget and presents the forecasts with the budget. This consultation process is a requirement of the *Budget Transparency and Accountability Act*.

The Minister met with the Council on December 3, 2004 to discuss their estimates for 2004 and the economic outlook for 2005 and beyond.

Council members discussed their views on the Canadian dollar as well as the international outlook. This was followed by a discussion of the province's near-term economic outlook, as well as factors affecting the province's medium-term outlook.

The Economic Forecast Council requested the opportunity to update their survey in January due to the availability of new information. Consequently, the Council was re-surveyed on January 10, 2005. The underlying forecast details from these January surveys are summarized in the table at the end of the topic box.

Chart 1 – Economic Forecast Council Outlook for the BC Economy



Overview

Following estimated growth in the British Columbia economy of 3.5 per cent in 2004, the average of participants' forecasts called for growth of 3.3 per cent in 2005, 3.1 per cent in 2006 and 3.0 per cent for the 2007 to 2009 period. Council members saw BC as well positioned to post strong growth over the next couple of years relative to the other Canadian provinces. British Columbia was expected to outperform Canada in 2005 by almost all of the council members. In the medium-term, council members expected infrastructure related to the 2010 Olympics, a strong domestic economy supported by higher migration, increased consumer and business confidence, growing trade with Asia and improved fiscal flexibility of the provincial government to result in robust growth.

The outlook for the Canadian dollar and the impact of the dollar's appreciation on the Canadian and BC economies was one of the main concerns of Council members, and was their main forecast risk.

International Outlook

Following expected growth of 4.4 per cent in 2004, the participants' average forecast points to U.S. growth of 3.4 per cent in 2005 and 3.3 per cent in 2006, before slowing to 3.1 per cent for the 2007 to 2009 period.

Several council members expressed concern surrounding the twin deficit problem in the U.S. and its potential impact on growth. However, some council members felt the impact was limited to the next couple of years while others saw the twin deficit problem as more of a medium-term issue.

The Council felt that growth in Europe and Japan would be slower than that of the U.S. economy over the forecast period, partly due to weakening net exports from stronger domestic currencies.

The Canadian Economy

The Canadian economy benefited from strong commodity prices in 2004. Several council members saw slower U.S. growth and the higher Canadian dollar combined with softer commodity prices translating into a weaker trade sector performance in 2005, pushing Canadian economic growth below potential.

For 2005, Canadian growth was forecast to be 2.8 per cent on average, climbing to an average forecast of 3.0 per cent in 2006 before moderating slightly to 2.9 per cent on average for 2007 through 2009.

The rapid appreciation of the Canadian dollar was seen to be the biggest concern in terms of Canadian economic growth. Although many council members pointed out that high commodity prices and lower Canadian interest rates could partially offset the impact of the Canadian dollar.

Financial Markets

Most Council members saw an increase in the intended Federal Funds rate in 2005, as higher inflation in the U.S. would require the Federal Reserve to raise interest rates in order to re-establish positive real interest rates. Higher interest rates were expected to dampen the U.S. housing market, which could negatively impact BC's forestry exports.

The intended federal funds rate[1] was projected to be 2.77 per cent on average in 2005, rising to 3.55 per cent in 2006 on average. Over the 2007 to 2009 period the intended federal funds rate forecasts averaged 4.15 per cent.

In Canada, the Council generally felt that the Bank of Canada would remain on the sidelines for much of 2005, with the overnight target rate[2] expected to average 2.79 per cent for the year. The interest rate spread between the U.S. and Canada was expected to narrow on average over the medium-term. The Bank of Canada's overnight target rate was forecast to average 3.31 per cent in 2006 and 3.86 per cent over the 2007 to 2009 period.

[1] The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

[2] The overnight target rate is the midpoint of the Bank of Canada's operating band for overnight financing.

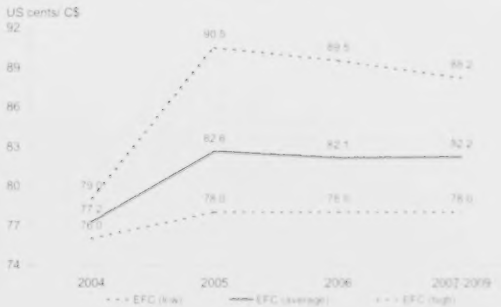
British Columbia Economic Forecast Council: Summary of Forecasts
January 10, 2005 Survey

Participant	Organization	2004	2005	2006	2007-2009 Average
		Per cent change in real GDP			
Don Drummond	TD Bank	3.5	3.1	3.3	3.1
Marie-Christine Bernard	Conference Board	3.4	2.8	2.4	2.4
Jock Finlayson	BC Business Council	3.6	3.3	3.3	3.5
Warren Jestin	Scotiabank	3.2	3.4	3.3	3.4
Craig Wright	RBC Financial Group	3.4	3.7	3.5	3.4
Rick Egelton	Bank of Montreal	3.2	3.4	3.0	3.2
Dale Orr	Global Insight	3.7	3.4	2.9	2.9
Helmut Pastrick	Credit Union Central of BC	4.2	3.8	3.6	3.0
Warren Lovely	CIBC	3.3	3.5	3.1	3.2
Carl Sonnen	Informetrica	3.1	3.3	3.1	2.7
Ernie Stokes	Stokes Economic Consulting	3.3	2.9	2.4	2.5
David Baxter	Urban Futures Institute	3.2	3.3	3.4	3.2
William Tharp	M. Murenbeeld & Associates	4.0	3.2	3.4	2.6
Average		**3.5**	**3.3**	**3.1**	**3.0**

The Council's average forecast for the exchange rate was 82.6 cents US in 2005, up from 77.2 cents US in 2004. Forecasts ranged from a low of 78.0 cents up to a high of 90.5 cents. In 2006, the average of participants' exchange rate forecasts was 82.1 cents US with the majority expecting a steady or depreciating Canadian dollar. On average, the Council expects the Canadian dollar to hold steady over the medium-term to average 82.2 cents US for 2007 to 2009. Council members continued to have divergent views on the level of the Canadian dollar over the medium-term, although the range of participants' opinions narrowed somewhat. Over the 2007 to 2009 period, the range of Council members forecasts of the Canadian dollar was from 78.0 cents US up to 88.2 cents US.

The higher Canadian dollar was seen as the largest risk to the outlook; the Council discussed both the upside and the downside to a stronger currency. Potentially negative impacts of the higher Canadian dollar would be lower exports and tourism activity. Potential benefits of the stronger dollar mentioned by Council members included, less aggressive tightening by the Bank of Canada, which would help sustain Canadian housing markets, as well as increased investment in productivity enhancing machinery and equipment from the U.S.

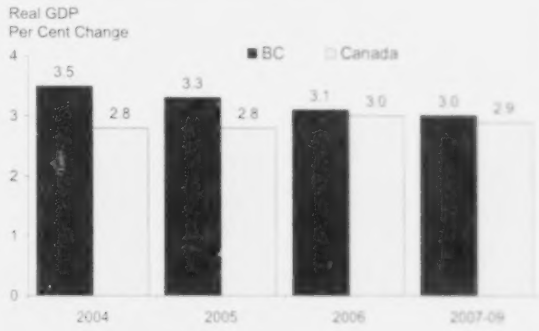
Chart 2 – Economic Forecast Council Outlook for the Exchange Rate



British Columbia Forecast

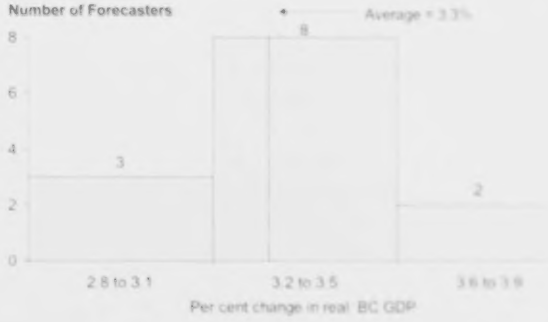
On average, participants expected BC's economy to post growth of 3.3 per cent in 2005, 3.1 per cent in 2006 and 3.0 per cent during the 2007 to 2009 period. Forecasts for BC economic growth in 2005 ranged from 2.8 per cent up to 3.8 per cent. Almost all of the Council members are expecting BC to outperform Canada in 2005. Participants cited BC's diversified export markets, increased consumer and business confidence, the province's ties to Asia, the provincial government's enhanced fiscal flexibility, infrastructure projects and the dampened impact of the high Canadian dollar on BC relative to other provincial economies as reasons for BC's strong performance.

Chart 3 – Economic Forecast Council Outlook for the BC and Canada



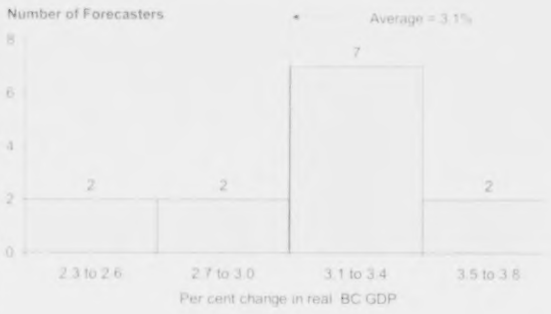
As shown in Charts 4 and 5, Council members views were relatively convergent on their BC growth forecasts for 2005 and 2006.

Chart 4 – Economic Growth Forecast 2005



However, for the longer term forecast for the 2007-09 period, there was a wider spread. While a large group (six members) expected growth of 3.2 per cent or higher, the average

Chart 5 – Economic Growth Forecast 2006



forecast was reduced by a group (four members) predicting growth of 2.7 per cent or less (see Chart 6).

Chart 6 – Economic Growth Forecast 2007-09

External Issues

The Council discussed the sustainability of the U.S. recovery and the economy's vulnerability due to high consumer debt loads and the twin deficits. While BC's economy has a diversified export market, the U.S. is still the province's major trading partner and a downturn in the U.S. economy would have a negative impact on BC.

In addition, participants noted that BC is well positioned to benefit from increased trade with Asia, especially China. In particular, infrastructure improvements including ports, railways and border-crossings will help BC make the most of the province's geographical proximity to rapidly expanding Asian markets.

The potential resolution of the softwood lumber dispute with the U.S. was also mentioned by the Council as a positive factor for the BC outlook. However, all of Council members expect the U.S. housing market to slow in 2005 and 2006.

Sectoral Issues

In terms of the domestic economy, the Council discussed the areas of housing, immigration and energy sector development.

Since the Council on average expects Canadian interest rates to remain fairly low next year, the housing sector in BC was expected to be robust in 2005. Housing starts in BC will also be driven by increased migration as BC performs well relative to other Canadian provinces. The Council on average saw housing starts easing somewhat from the high levels seen in 2004 but remaining robust with an average of 30,559 units in 2005. There was a wide range of forecasts of housing starts in 2005, from 25,000 units up to 34,500 units.

Development of oil and gas in BC and the industry's increasing contribution to the BC economy were mentioned by several Council members. High energy prices have been supporting oil and gas exploration and investment in machinery and equipment has been less costly due to the higher Canadian dollar.

Government

The improved fiscal position of government was also noted as a positive factor by Council members. By balancing the provincial budget, government has more fiscal flexibility. In addition, the government has more flexibility to maintain a competitive tax regime and invest in infrastructure.

Most of the Council members mention the 2010 Olympics as an important medium-term issue for the BC economy. Rising construction costs were an area of concern including possible labour shortages. Increased capital spending and tourism leading up to the Olympics were expected to provide a lift to the BC economy over the medium-term.

Forecast Survey – Participants' Opinions

All figures are based on annual averages	2004 Range	2004 Average[1]	2005 Range	2005 Average[1]	2006 Range	2006 Average[1]	2007 to 2009 Range	2007 to 2009 Average[2]
United States								
Real GDP (% change)	3.9 – 4.8	4.4 (13)[3]	2.5 – 3.9	3.4 (13)	3.0 – 4.0	3.3 (13)	2.5 – 3.6	3.1 (12)
Intended Federal Funds rate (%)	1.30 – 1.60	1.41 (12)	2.50 – 3.13	2.77 (12)	3.00 – 4.51	3.55 (12)	2.50 – 5.10	4.15 (11)
Housing starts (million units)	1.88 – 2.00	1.94 (12)	1.65 – 1.90	1.80 (12)	1.58 – 1.85	1.70 (12)	1.56 – 1.80	1.66 (11)
Canada								
Real GDP (% change)	2.6 – 3.0	2.8 (13)	2.5 – 3.1	2.8 (13)	1.9 – 3.4	3.0 (13)	2.4 – 3.2	2.9 (12)
Bank of Canada Overnight Target rate (%)	2.20 – 2.51	2.30 (12)	2.30 – 3.70	2.79 (12)	2.25 – 4.74	3.31 (12)	2.50 – 5.65	3.86 (11)
Exchange rate (US cents/C$)	76.0 – 79.0	77.2 (13)	78.0 – 90.5	82.6 (13)	78.0 – 89.5	82.1 (13)	78.0 – 88.2	82.2 (12)
Consumer price index (% chg)	1.8 – 2.3	1.9 (13)	1.0 – 2.4	1.9 (13)	1.4 – 2.3	1.9 (13)	1.4 – 2.0	1.8 (12)
British Columbia								
Real GDP (% change)	3.1 – 4.2	3.5 (13)	2.8 – 3.8	3.3 (13)	2.4 – 3.6	3.1 (13)	2.4 – 3.5	3.0 (13)
Nominal GDP (% change)	5.0 – 8.3	6.9 (12)	3.6 – 6.2	5.0 (12)	3.7 – 6.2	5.0 (12)	3.5 – 5.5	4.7 (11)
Personal Income (% change)	2.8 – 5.5	4.5 (9)	2.9 – 6.0	4.6 (9)	3.0 – 6.2	4.5 (9)	2.9 – 5.5	4.1 (8)
Net Migration (thousand persons)	22.0 – 44.0	33.0 (11)	26.0 – 48.0	35.9 (11)	20.0 – 52.0	37.6 (11)	20.0 – 65.0	40.3 (10)
Employment (% change)	1.7 – 2.4	2.2 (12)	1.9 – 2.5	2.1 (12)	1.0 – 3.0	1.9 (12)	1.0 – 2.7	1.9 (10)
Unemployment rate (%)	7.3 – 7.6	7.4 (13)	6.6 – 7.3	7.1 (13)	6.1 – 7.5	7.0 (13)	5.7 – 7.5	6.9 (11)
Corporate pre-tax profits (% change)	8.0 – 27.0	19.5 (7)	-8.0 – 11.0	5.7 (7)	2.5 – 9.0	5.9 (6)	3.2 – 8.0	6.1 (6)
Housing starts (thousand units)	31.7 – 33.0	32.3 (13)	25.0 – 34.5	30.6 (13)	22.0 – 34.0	28.7 (13)	22.0 – 36.0	28.3 (11)
Retail sales (% change)	5.2 – 6.9	6.2 (12)	4.6 – 7.4	5.5 (12)	3.7 – 6.8	5.0 (12)	3.3 – 7.0	4.8 (10)
Consumer price index (% chg)	1.8 – 2.4	2.0 (13)	1.4 – 2.8	2.0 (13)	1.4 – 2.9	1.9 (13)	1.3 – 2.4	1.9 (11)

[1] Based on responses from participants providing forecasts.

[2] Participants provided an average forecast for 2007 to 2009.

[3] Number of respondents shown in parenthesis.

Part 4: 2004/05 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.1 2004/05 Budget and Quarterly Updates – Operating Statement

($ millions)	Budget	First *Quarterly Report*	Second *Quarterly Report*	Third *Quarterly Report*
Taxpayer-supported programs and agencies:				
Revenue	28,568	29,417	30,210	30,273
Expense	(30,440)	(30,585)	(30,375)	(30,986)
Taxpayer-supported balance	**(1,872)**	**(1,168)**	**(165)**	**(713)**
Commercial Crown corporation net income	2,072	2,333	2,409	2,453
Surplus before forecast allowance	**200**	**1,165**	**2,244**	**1,740**
Forecast allowance	(100)	(300)	(300)	(300)
Surplus	**100**	**865**	**1,944**	**1,440**

Introduction

The surplus forecast for 2004/05 has declined by $504 million from the second *Quarterly Report* forecast, mainly due to a number of one-time priority spending initiatives and accelerations totaling $452 million. At $1.44 billion, the surplus is now projected to be $1.34 billion higher than forecast in the February 17th 2004 budget.

Chart 4.1 Progress of 2004/05 financial forecasts

2004/05 Fiscal Year in Review

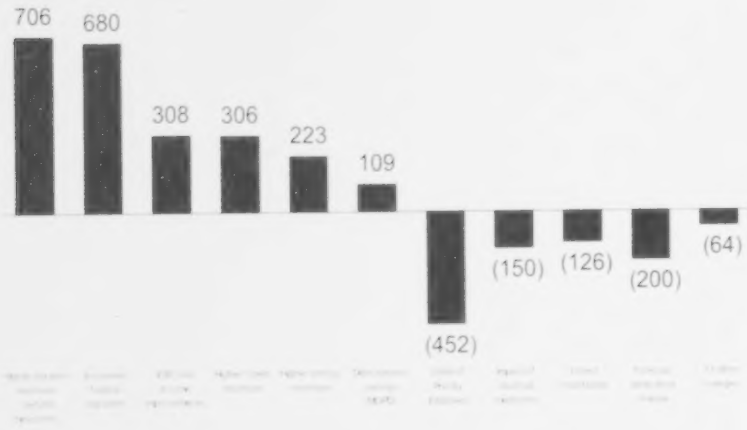
The government's plan to balance the budget in 2004/05 received some major boosts due to robust economic performance and higher commodity prices, as well as a net $680 million increase in federal transfers.

In addition to increased federal transfers, major revenue changes include higher tax revenues from a variety of sources, natural resource revenue and commercial Crown corporation net income. Revenue gains were offset by the reduction in the provincial sales tax and further tax measures contained in the February 15, 2005 budget. The improvement since budget also benefited from lower debt interest costs, but was offset by higher than anticipated forest fire and flood costs.

The above improvements enable government to accelerate key initiatives and plan some priority expenditures totaling $452 million. *Supplementary Estimates* will be introduced to authorize this additional spending. Further details are provided in Table 4.3.

Chart 4.2 2004/05 surplus improved by $1,340 million

Main changes since *Budget 2004*
$ millions



Changes since the Second *Quarterly Report*

The forecast surplus for 2004/05 has declined $504 million from the second *Quarterly Report* forecast, and is now projected to be $1.34 billion higher than the February 17, 2004 budget.

Since the second *Quarterly Report* in November:

- Total revenue, including commercial Crown corporation net income, increased $107 million. Taxpayer-supported revenue is up $63 million as higher revenue from miscellaneous sources and federal government transfers were partially offset by reductions in natural resource revenues and taxation revenues. Commercial Crown corporation net income increased by $44 million, primarily due to BC Hydro receiving an arbitration payment of $137 million from Alcan Inc. partially offset by lower results due to BC Rail's increased provisions for liabilities related to its Vancouver Wharves subsidiary.
- Total spending increased $611 million from the previous forecast. The Consolidated Revenue Fund (CRF) spending forecast increased $965 million, mainly due to the impact of the initiatives to be funded through supplementary estimates, partially offset by reduced debt servicing costs. BC Transportation Financing Authority (BCTFA) will retain the transfers it receives from the CRF to reduce its capital debt. This has the effect of offsetting the CRF expense. Other taxpayer-supported Crown corporation and agency expenses and adjustments have increased by $157 million, reflecting BCTFA's additional contribution to the RAV project and a change in accounting policy to include defeased debt interest expense. SUCH sector net spending increased by $39 million, mainly by health authorities.
- The forecast allowance is unchanged at $300 million in recognition of revenue and other uncertainties remaining until the accounts for the full year are completed.

Table 4.2 provides more details on developments since the second *Quarterly Report*.

Table 4.2 Operating Statement Update Since the Second *Quarterly Report*

($ millions)	Changes	Updated Forecast
***Budget 2004* Fiscal Plan (February 17, 2004)**		**100**
First Ministers' Accord on Health Care Renewal:		
Additional revenues from the federal government	148	
Additional BC commitments to health care	(148)	-
Fiscal Plan (May 20, 2004 *Supply Act*)		**100**
Revenue increases up to the second *Quarterly Report*	2,042	
Expense decreases up to the second *Quarterly Report*	2	
Forecast allowance changes up to the second *Quarterly Report*	(200)	1,844
2004/05 surplus – second *Quarterly Report*		**1,944**
Third *Quarterly Report* Update:		
Revenue changes		
Personal income tax revenue – partial year impact of tax measure decreasing taxes of low and moderate income taxpayers	(25)	
Corporate income tax revenue – mainly higher federal instalments	42	
Social service tax revenue – weaker collections during October to December	(25)	
Energy and mineral revenue – lower bonus bid sales, partly offset by higher royalties	(22)	
Forests revenue – weaker prices and rising Canadian dollar	(100)	
Medical Service Plan premiums – mainly reflecting a change in the accounting treatment of premium revenue and allowances for doubtful accounts	51	
Health and social transfers – mainly adjustments to prior year entitlements	36	
Higher revenue from miscellaneous sources – mainly school district own source revenues (e.g. facility leasing)	55	
All other changes in taxpayer-supported revenue	51	
Commercial Crown corporation net income:		
BC Hydro – mainly impact of Alcan settlement	100	
BC Rail – mainly provision for liabilities related to its Vancouver Wharves subsidiary	(69)	
Other Crown corporation changes – primarily LDB operating improvements	13	
Total revenue increases		**107**
Expense changes		
Supplementary Estimates – priority initiatives	(452)	
Supplementary Estimates – transfer to BCTFA	(550)	
Forecast reductions, below-budget spending and interest cost savings	37	
CRF expense increases	(965)	
BCTFA – additional funding to reduce capital debt	550	
Other taxpayer-supported Crown corporation and agency expenses and adjustments	(157)	
SUCH sector – net spending increase	(39)	
Total expense increases		**(611)**
Net change		**(504)**
2004/05 surplus – third *Quarterly Report*		**1,440**

Revenue

The revenue forecast update reflects trends experienced in the first nine months of the fiscal year. During the first three quarters ended December 31, 2004, revenue was $1,297 million higher than expected, reflecting stronger revenues from taxation, energy, forests, fees and miscellaneous sources and improved commercial Crown corporation net incomes.

The full-year revenue forecast is up $107 million from the second *Quarterly Report*, and $2,086 million higher than the *Budget 2004* forecast. Significant changes since the second *Quarterly Report* include:

- *Personal income tax* – down $25 million mainly due to the impact of the *Budget 2005* measures totaling $30 million, that reduces taxes for low and moderate income taxpayers.
- *Corporate income tax* – up $42 million due to higher instalments from the federal government and higher-than-expected final BC tax assessments for the 2003 tax year.
- *Social service tax* – down $25 million reflecting weaker collections in the October to December period.
- *Energy and minerals* – down $22 million as lower bonus bid sales and lower revenue from minerals and sales of electricity under the Columbia River Treaty are partly offset by higher natural gas royalties.
- *Forests* – down $100 million as weaker third quarter results reflect lower-than-expected stumpage rates due to falling lumber prices and a rising Canadian dollar during the October to December period.
- *Medical Service Plan premiums* – up $51 million mainly due to a change in the accounting treatment of premium revenue and allowance for doubtful accounts. Previously only the net revenue was recorded.
- *Health and social transfer payments* – up $36 million mainly due to higher entitlement for prior years. The forecast assumes that additional cash to be received in 2004/05 as a result of the September 2004 First Ministers' Meeting will be deferred to future years and matched with increased expenditures beginning in 2005/06.

Commercial Crown Corporation Net Income

- BC Hydro projects operating results of $310 million (before regulatory transfers) for 2004/05, a $100 million improvement since the update provided in the second *Quarterly Report*. The improvement is primarily due to the $137 million payment of an arbitration award by Alcan Inc. to Powerex for indemnities Alcan issued as part of a power sales arrangement with Enron Power Marketing Inc. The improvement is partially offset by higher energy costs, as ice conditions on the Peace River have restricted hydro generation and resulted in BC Hydro having to purchase energy to meet demand.

- The Liquor Distribution Branch has improved its projected result for 2004/05 by $8 million primarily due to reduced operating costs.
- The BC Rail earnings during government's 2004/05 fiscal year are forecast to decrease by $69 million since the second *Quarterly Report*, primarily due to increased provisions for liabilities related to its Vancouver Wharves subsidiary. BC Rail also wrote-down some of its assets at Vancouver Wharves.

  The gain from the BC Rail partnership transaction is now forecast to be $196 million. This is $5 million higher than the projection in the second *Quarterly Report*. The calculation of the gain is still subject to review by BC Rail's auditors, and the final amount is not expected to be known until March 2005. Government has committed to reinvest the amount of the gain into Northern and First Nations communities. Based on the current estimate, an additional $5 million has been allocated against the contingencies vote. Final decisions on the use of these funds will not be made until the final gain is confirmed.
- ICBC's impact on the government's bottom line is a $5 million improvement over the forecast in the second *Quarterly Report*, as a slight increase in revenue and reduced operating costs were partially offset by an increase in projected claims costs.

Further details on the full year revenue forecast are shown in Table 4.10 and key assumptions are provided in Appendix Table A10.

Expense

Government expense includes spending for ministries and other programs of the Consolidated Revenue Fund (CRF), combined with the expense of taxpayer-supported Crown corporations and agencies and the SUCH sector (schools, universities, colleges and health authorities/hospital societies). The total expense forecast of $31 billion is $546 million higher than budget and $611 million higher than the second *Quarterly Report* (see Table 4.2). The higher forecast is due primarily to spending to be funded through *Supplementary Estimates*.

Consolidated Revenue Fund expense

CRF spending is forecast to be $965 million higher than the second *Quarterly Report* forecast. This is due primarily to spending for priority initiatives through planned *Supplementary Estimates*, partially offset by lower forecasts for debt interest costs and the costs associated with the transfer of Crown land.

2004/05 Priority Spending

Through a combination of one-time increases in federal funding and other revenue gains, the province has an opportunity to fund or accelerate a number of priority initiatives in 2004/05 in areas including the natural resources sector, communities and safety, infrastructure, transportation, tourism, and the environment. While there is a sufficiently large surplus to fund these priority initiatives, there is currently no legislated funding appropriation.

Therefore, government intends to introduce *Supplementary Estimates* to obtain the necessary legislative appropriations to fund these priority initiatives. The proposed *Supplementary Estimates* would provide new legislative appropriation in 2004/05 of $452 million for priority initiatives and $550 million for the reduction of BC Transportation Financing Authority debt (there is no bottom line impact associated with the transfer of funds to the BCTFA).

Table 4.3 2004/05 Priority Spending

($ millions)	*Supplementary Estimates*	Legislation
Advanced Education		
Research funding contribution	10	-
Agriculture, Food and Fisheries		
BSE and avian flu response	12	-
Industry development initiatives	16	-
Community, Aboriginal and Women's Services		
Canada/BC Infrastructure Program	26	-
North East BC Infrastructure	40	-
Energy and Mines		
Geoscience BC	25	-
Forests		
Forestry Revitalization, reforestation	112	-
Human Resources		
Costs resulting from support rate increase for persons with disabilities	10	-
Public Safety and Solicitor General		
Priority police equipment	3	-
Small Business and Economic Development		
Arts & sports	40	-
Community Development Initiative, Western Economic Partnership Agreement	68	-
2010 Olympics Venues acceleration	40	-
Tourism initiatives	14	-
Sustainable Resource Management		
Contaminated sites, water remissions	28	-
Transportation		
BC Rail Investment Partnership	-	391
Reduction in BCTFA debt requirements	550	-
Water, Land and Air Protection		
Biodiversity initiatives	8	-
Total priority spending	**1,002**	**391**

Advanced Education – $10 million:

- $10 million for matching research funds. Further details on this funding will be announced at a later date.

Agriculture and Food – $28 million:

- $12 million for assistance to producers as part of the provincial response to BSE and avian flu.
- $16 million for other initiatives including crop insurance funding, research, innovation and increasing the competitiveness of the BC food industry.

Community, Aboriginal and Women's Services – $66 million

- $26 million for local government infrastructure funding through the Canada/BC Infrastructure Program.
- $40 million for a one-time grant to address historical infrastructure requirements in North East BC.

Energy and Mines – $25 million:

- $25 million for a new geoscience centre to, in partnership with industry, develop and publish geoscience data and enhance exploration in the mining, and oil and gas sectors.

Forests – $112 million:

- $50 million for the commitment to increase the Forestry Revitalization Trust to $125 million.
- $50 million toward compensation for improvements by companies impacted by timber re-allocation as part of the Forestry Revitalization Plan, increasing the total compensation for companies to $250 million.
- $12 million for reforestation.

Human Resources – $10 million

- $10 million as a result of additional spending to provide assistance to persons with disabilities.

Public Safety and Solicitor General – $3 million

- $3 million for police equipment associated with the provincial commitment to add 215 officers to the provincial police force.

Small Business and Economic Development – $162 million

- $25 million to establish an Arts and Culture Endowment and Development Fund, to leverage private sector support to build endowments for arts and culture organizations and assist with development and sustainability initiatives.
- $15 million to LegaciesNow for sports activities targeting capacity, sustainability and performance.
- $66 million for municipal and regional infrastructure funding under the Community Development Initiative.
- $2 million for funding under the Western Economic Partnership Agreement.
- $40 million to accelerate funding for 2010 Olympics venues.
- $14 million for tourism initiatives. Further details on this funding will be announced at a later date.

Sustainable Resource Management – $28 million

- $25 million for the investigation and remediation of contaminated sites on Crown land.
- $3 million for water rental remissions to BC Hydro.

Transportation – $550 million:

- $550 million to reduce the debt requirements of the BC Transportation Financing Authority. This grant will not impact the bottom-line of the province on a summary financial statement basis. This is explained in further detail in the topic box at the end of Part 1.

Water, Land and Air Protection – $8 million:

- $8 million for acquisition of parkland and other conservation activities.

Updated 2004/05 Spending Forecast

In addition to the priority spending initiatives listed above, the main changes to the 2004/05 forecast since the second *Quarterly Report* are:

- The Ministry of Attorney General is currently forecasting expenses under the *Crown Proceeding Act* to be $4 million less than budget.
- Management of public funds and debt (debt interest) is forecast to be $23 million lower than the second *Quarterly Report* and $109 million below budget for the year, reflecting significantly lower borrowing requirements for government operating purposes and lower debt balances at the start of the year.
- Emergency response costs resulting from fires and floods are forecast to be $15 million above budget, which is reflected in the full year forecast for the Ministry of Public Safety and Solicitor General. The second *Quarterly Report* included a $6 million pressure for emergency preparedness and response costs.
- In accordance with generally accepted accounting principles, expenses for transfers of Crown lands at rates below market value are fully offset by a corresponding revenue amount, and therefore these transfers have no impact on the government's bottom line or debt. Expenses and revenues for transfers of Crown land at rates below market value are forecast to be $74 million below budget, $34 million lower than the second *Quarterly Report*.

As shown in Table 4.4, other pressures being managed total $50 million for 2004/05 and include:

- Advanced Education – pressure reflects government's commitment to invest in the creation of the Irving K. Barber BC Scholarship Program.
- Corporate – pressure reflects potentially higher than forecast costs for the employer portion of employee benefits.

Table 4.4 2004/05 Pressures Being Managed

	($ millions)
Advanced Education – Irving K. Barber BC Scholarship Program	15
Corporate – employee benefits	35
Total pressures being managed	**50**

Spending commitments and pressures totaling $144 million have been notionally allocated to the contingencies vote (see Table 4.5). These allocations include:

- $32 million for government's commitment to return 100 per cent of net traffic fine revenue to local municipalities starting in 2004/05.
- $25 million for government's commitment to provide community grants to the Union of BC Municipalities.
- As part of the 1995 Vancouver Island Gas Pipeline Assistance Agreement, the province is required to make payments to Terasen Inc. for the value of a volume of natural gas set out in the agreement. Higher than forecast natural gas prices are expected to increase the estimated payment required for 2004/05 by $10 million. However, this is more than offset by increased provincial revenues resulting from the higher natural gas prices.
- Up to $11 million for the provincial response to avian flu and Bovine Spongiform Encephalopathy (mad cow disease).
- Up to $9 million for costs related to the Pickton, Air India and Eron trials.
- $14 million for government commitments to the BC Trust for Public Lands, Living Rivers, and Species at Risk (mountain caribou).
- $3 million for government's commitment to the 2010 Olympics Live sites program.
- $8 million for government's commitment to aid Southeast Asian Tsunami Victims and $1 million for provincial coastal communities at risk from tsunamis to ensure they are properly prepared.
- $12 million for government's response to the Filmon Report on forest fires.

Table 4.5 2004/05 Pressures Allocated to the Contingencies Vote

	($ millions)
Traffic Fine Sharing	32
Community Grants	25
Filmon Report response	12
BSE assistance	11
Vancouver Island Gas Pipeline Assistance Agreement – higher payments due to higher natural gas prices	10
BC Trust for Public Lands	8
Tsunami Relief	8
Air India and other trials	6
Living Rivers	5
Homelessness	5
BC Rail investment partnership	5
Avian flu response	3
Olympic Live Sites	3
Pickton trial	3
Land use planning	2
Settlement and adaptation program	2
Mining plan initiatives	2
Species at Risk	1
Tsunami preparedness	1
Subtotal	**144**
Unallocated	96
Total contingencies budget	**240**

- $5 million to reflect potential additional re-investments of the gain from the BC Rail Investment partnership. This is based on current estimates, the amount of the gain is not expected to be finalized until March 2005.
- $2 million in transition funding under the BC Settlement and Adaptation Program for the delivery of services to new immigrants and refugees, including English as a Second Language programs.
- $2 million for initiatives to begin implementing the Mining Plan.
- $5 million for transition and supportive housing projects for homeless individuals.
- $2 million for government-to-government negotiations with First Nations for land and resource management plans.

During the first nine months of the fiscal year, total CRF spending (ministries, special offices and other programs) was $116 million above budget, reflecting higher forest fire costs and distribution of proceeds from the BC Rail investment partnership, partially offset by below-budget spending in most programs and lower debt interest costs (see Table 4.11).

Other expense

In total, taxpayer-supported Crown corporation and agency expense (net of internal transfers) is forecast to be $354 million lower than the projection in the second *Quarterly Report*. The main changes are:

- An additional $550 million transfer to the BC Transportation Financing Authority will reduce taxpayer-supported Crown corporation net expense.
- Other taxpayer-supported Crown corporation and agency expenses, net of transfers, are up $157 million from the second *Quarterly Report*. The change includes the impact of broader implementation of the accounting policy change for sinking funds to include debt defeasance trust expense ($63 million). As well, the BC Transportation Financing Authority will contribute an additional $50 million to the RAV project in 2004/05. Other changes primarily reflect an increase to the adjustment for bad debt expense.
- A $39 million increase in SUCH sector expenses, net of transfers, from the second *Quarterly Report* is primarily due to increased spending by health authorities.

Capital Spending and Provincial Debt

Since the second *Quarterly Report*, the capital spending forecast has increased $103 million to total $3.2 billion, and remains $253 million above the *Budget 2004* amount of $2.9 billion. The change from the second *Quarterly Report* is mainly due to increased spending for health facilities (reflecting commencement of the Abbotsford Regional Hospital and Cancer Centre), education facilities (K-12 schools, partially offset by delays in post-secondary education projects) and ministry minor capital purchases.

Table 4.6 2004/05 Budget and Quarterly Updates – Capital Spending and Provincial Debt

($millions)	Budget	First Quarterly Report	Second Quarterly Report	Third Quarterly Report
Capital spending				
Taxpayer-supported	1,943	2,042	2,070	2,231
Self-supported	991	917	1,014	956
Total capital spending	**2,934**	**2,959**	**3,084**	**3,187**
Provincial Debt				
Taxpayer-supported	32,115	29,951	29,451	28,613
Self-supported	7,180	6,978	7,267	7,150
Forecast allowance	100	300	300	300
Total provincial debt	**39,395**	**37,229**	**37,018**	**36,063**
Taxpayer-supported debt as a per cent of GDP	21.8%	19.9%	19.2%	18.5%
Total provincial debt as a per cent of GDP	26.8%	24.7%	24.1%	23.3%

Significant changes since the second *Quarterly Report* are shown in Table 4.7. Further details on capital spending are shown in Table 4.13. Information on updated forecasts for major capital projects (those with multi-year budgets totaling $50 million or more) is provided in Table 4.14.

Provincial debt is forecast to total $36.1 billion at year-end, 23.3 per cent of GDP, while taxpayer-supported debt is expected to total $28.6 billion or 18.5 per cent of GDP. The debt to GDP ratios forecast in *Budget 2004* for total and taxpayer-supported debt were 26.8 per cent and 21.8 per cent respectively.

The total debt forecast is $898 million lower than the second *Quarterly Report* mainly due to lower BC Transportation Financing Authority debt (resulting from a cash contribution from the provincial government to help finance the transportation investment plan), clarification of the accounting treatment of the indemnity to CN related to tax attributes – as a contingent liability and not guaranteed debt (after consultations with the Office of the Auditor General), and improved operating results and lower financing transactions for BC Hydro (see Table 4.7). The decreased forecast continues a trend that saw the debt forecast decline by $2.4 billion as of the second *Quarterly Report*. Total debt is now forecast to be $3.3 billion below budget.

Further information on the debt forecast is shown in Table 4.15.

Table 4.7 Capital Spending and Debt Update Since the Second *Quarterly Report*

($ millions)	Change	Updated Forecast
***Budget 2004* capital spending**		**2,934**
Taxpayer-supported changes up to the second *Quarterly Report*	127	
Self-supported changes up to the second *Quarterly Report*	23	150
2004/05 updated capital spending – second *Quarterly Report*		**3,084**
Taxpayer-supported changes		
Health facilities – mainly commencement of the Abbotsford Regional Hospital and Cancer Centre	101	
Education facilities – increased spending for K-12 schools, partially offset by delays in post-secondary education projects	27	
Government operating – increased ministry minor capital spending	53	
Other	(20)	**161**
Self-supported changes		
BC Hydro – mainly cancellation of the Georgia Strait Piplene Crossing project	(30)	
BC Lotteries – delayed spending for gaming equipment	(31)	
Other	3	**(58)**
2004/05 updated capital spending – third *Quarterly Report*		**3,187**
***Budget 2004* total provincial debt**		**39,452**
Restatement for change in accounting policy for defeased debt	(57)	
Restated *Budget 2004* total provincial debt		**39,395**
Taxpayer-supported changes up to the second *Quarterly Report*	(2,721)	
Self-supported changes up to the second *Quarterly Report*	87	
Increased forecast allowance up to the second *Quarterly Report*	200	(2,434)
2004/05 updated total provincial debt – second *Quarterly Report*		**36,961**
Taxpayer-supported debt changes		
BC Transportation Financing Authority – mainly additional cash contribution from the provincial government to finance the transportation investment plan	(495)	
Clarification of accounting treatment of indemnity to CN related to tax attributes	(255)	
Other	(31)	**(781)**
Self-supported debt changes		
BC Hydro – improved operating results and lower financing transactions	(121)	
Other	4	**(117)**
Total third *Quarterly Report* changes		**(898)**
2004/05 updated total provincial debt – third *Quarterly Report*		**36,063**

Table 4.8 2004/05 Operating Statement

($ millions)	Year-to-Date to December 31				Full Year			
	2004/05			Actual	2004/05			Actual
	Budget	Actual	Variance	2003/04	Budget	Forecast	Variance	2003/04
Taxpayer-supported programs and agencies:								
Revenue	21,215	22,123	908	20,431	28,568 [1]	30,273	1,705	27,352
Expense	(22,065)	(21,816)	249	(22,056)	(30,440) [1]	(30,986)	(546)	(30,205)
Taxpayer-supported balance	**(850)**	**307**	**1,157**	**(1,625)**	**(1,872)**	**(713)**	**1,159**	**(2,853)**
Commercial Crown corporation net earnings	1,499	1,888	389	1,515	2,072	2,453	381	1,894
Surplus (deficit) before forecast allowance	**649**	**2,195**	**1,546**	**(110)**	**200**	**1,740**	**1,540**	**(959)**
Forecast allowance	-	-	-	-	(100)	(300)	(200)	-
Surplus (deficit)	**649**	**2,195**	**1,546**	**(110)**	**100**	**1,440**	**1,340**	**(959)**

[1] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

Table 4.9 Operating Statement – Changes from *Budget 2004*

($ millions)	Changes	Updated Forecast
***Budget 2004* Fiscal Plan (February 17, 2004)**		100
First Ministers' Accord on Health Care Renewal:		
Additional revenues from the federal government	148	
Additional BC commitments to health care	(148)	–
Fiscal Plan (May 20, 2004 *Supply Act*)		100
Revenue increases (decreases):		
Personal income tax – mainly higher 2003 tax assessments	50	
Corporate income tax – higher 2003 BC tax assessments and 2004 instalments from the federal government	363	
Social service tax – mainly impact of rate reduction to 7.0% from 7.5%	(90)	
Property transfer tax – strong housing market	168	
Other taxes – corporation capital, insurance premium	65	
Energy and mineral sources – effect of higher prices	223	
Forests revenue – higher harvest volumes	306	
Impact of restoring the Columbia Basin power projects to commercial status	(57)	
Post secondary fees – updated forecasts submitted by universities and colleges	66	
Health and social transfers – mainly prior year adjustments	66	
Equalization – impact of new framework	578	
All other taxpayer supported sources	(33)	
Commercial Crown corporation net income:		
BC Hydro – mainly reflects BCUC decision, partially offset by impact of Alcan settlement	(78)	
BC Rail – primarily investment partnership, partially offset by liabilities related to Vancouver Wharves	138	
ICBC – primarily lower claims cost projections	308	
Other Crown corporation changes – primarily Columbia Power Corporation net income	13	
Total revenue changes		2,086
Expense changes:		
BC Rail investment partnership transfers (of which $200 million is transferred to the BCTFA)	(391)	
Supplementary Estimates – priority initiatives	(452)	
Supplementary Estimates – transfer to BCTFA	(550)	
Education – change in accounting for contributions in support of First Nations	52	
Forest fire and related costs	(111)	
Lower expenses for Free Crown Grants and leases	74	
Interest costs – mainly reduced debt levels	109	
Other forecast changes	(9)	
CRF expense changes	(1,278)	
Taxpayer-supported Crown corporations and agencies (net of internal transfers):		
Transfers to BCTFA from the CRF	750	
School districts – net spending increase	(107)	
Universities – net spending increase	(92)	
Colleges – net spending increase	(9)	
Health authorities – lower net spending estimates	131	
Other taxpayer-supported Crown corporation and agency changes	59	
Total expense changes		(546)
Forecast allowance increase		(200)
Net change		1,340
2004/05 surplus – third *Quarterly Report*		1,440

Table 4.10 2004/05 Revenue by Source

($ millions)	Year-to-Date to December 31				Full Year			
	2004/05			Actual	2004/05			Actual
	Budget[1]	Actual	Variance	2003/04	Budget[1]	Forecast	Variance	2003/04
Taxation								
Personal income	3,698	3,749	51	3,537	5,005	5,055	50	4,877
Corporate income	711	781	70	645	893	1,256	363	775
Social service	3,204	3,158	(46)	3,042	4,156	4,066	(90)	4,001
Fuel	642	679	37	666	891	895	4	875
Tobacco	520	538	18	490	676	686	10	647
Property	1,231	1,227	(4)	1,165	1,655	1,643	(12)	1,576
Property transfer	338	497	159	397	432	600	168	518
Other	357	423	66	318	477	540	63	539
	10,701	11,052	351	10,260	14,185	14,741	556	13,808
Natural resources								
Natural gas royalties	885	1,051	166	925	1,213	1,451	238	1,230
Columbia River Treaty	152	194	42	171	215	255	40	230
Other energy and minerals	455	412	(43)	761	603	548	(55)	878
Forests	637	853	216	586	999	1,305	306	1,007
Water and other resources	308	231	(77)	221	402	301	(101)	308
	2,437	2,741	304	2,664	3,432	3,860	428	3,653
Other revenue								
Medical Services Plan premiums	1,049	1,064	15	1,056	1,398	1,458	60	1,409
Post-secondary education fees	499	635	136	569	763	829	66	781
Other health-care related fees	146	139	(7)	159	195	190	(5)	222
Motor vehicle licences and permits	280	289	9	277	370	380	10	363
Other fees and licences	575	603	28	587	852	816	(36)	765
Investment earnings	614	598	(16)	656	889	782	(107)	946
Sales of goods and services	565	599	34	597	681	688	7	629
Miscellaneous	1,003	968	(35)	736	1,309	1,355	46	1,157
	4,731	4,895	164	4,637	6,457	6,498	41	6,272
Contributions from the federal government[2]								
Health and social transfers	2,525	2,493	(32)	2,336	3,372	3,438	66	3,044
Equalization	301	443	142	(41)	402	980	578	(330)
Other federal contributions	520	499	(21)	575	720	756	36	905
	3,346	3,435	89	2,870	4,494	5,174	680	3,619
Taxpayer-supported programs and agencies	21,215	22,123	908	20,431	28,568	30,273	1,705	27,352
Commercial Crown corporation net income								
BC Hydro (before regulatory transfers)[3]	251	216	(35)	157	388	310	(78)	90
Liquor Distribution Branch	612	620	8	567	760	768	8	724
BC Lotteries (net of payments to the federal government)	587	574	(13)	525	842	842	-	719
BC Rail[4]	14	166	152	69	29	167	138	51
ICBC[5]	31	308	277	191	52	360	308	302
Other	4	4	-	6	1	6	5	8
	1,499	1,888	389	1,515	2,072	2,453	381	1,894
Total revenue	22,714	24,011	1,297	21,946	30,640	32,726	2,086	29,246

[1] $226 million budgeted as health-care related fees has been reclassified as miscellaneous revenue. $50 million budgeted as miscellaneous revenue has been reclassified as post-secondary fee revenue. These reclassifications have no impact on total budgeted revenue or the budget bottom-line.

[2] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 Supply Act.

[3] Reflects the BCUC direction to BC Hydro on the accounting treatment for asset retirement obligations.

[4] The year to date figures reflect BC Rail's budget and results for the April to December period. The full-year forecast represents BC Rail's earnings during government's fiscal year. On BC Rail's fiscal year basis (December), the outlook is – 2004 (budget): $211 million; 2004 (forecast): $195 million.

[5] The year to date figures reflect ICBC's budget and results for the April to December period. The full-year forecast represents ICBC's earnings during government's fiscal year. On ICBC's fiscal year basis (December), the outlook is – 2004 (budget): $52 million; 2004 (forecast): $390 million.

Table 4.11 2004/05 Expense by Ministry, Program and Agency

($ millions)	Year-to-Date to December 31 2004/05 Budget[1]	2004/05 Actual	Variance	Actual 2003/04[1]	Full Year 2004/05 Budget[1]	2004/05 Forecast	Variance	Actual 2003/04
Advanced Education	1,415	1,412	(3)	1,395	1,899	1,899	-	1,897
Education	3,660	3,584	(76)	3,501	4,943	4,891	(52)	4,787
Health Services[2]	8,052	8,063	11	7,896	10,706	10,706	-	10,453
Subtotal	13,127	13,059	(68)	12,792	17,548	17,496	(52)	17,137
Office of the Premier	33	30	(3)	28	44	44	-	50
Agriculture, Food and Fisheries	30	24	(6)	42	45	45	-	79
Attorney General	383	367	(16)	385	489	485	(4)	520
Children and Family Development	1,168	1,143	(25)	1,191	1,555	1,555	-	1,591
Community, Aboriginal and Women's Services	227	254	27	295	333	333	-	449
Energy and Mines	48	47	(1)	48	64	64	-	77
Finance	40	34	(6)	43	46	46	-	53
Forests	401	476	75	712	530	641	111	839
Human Resources	980	957	(23)	1,035	1,301	1,301	-	1,394
Management Services	36	37	1	38	61	61	-	61
Provincial Revenue	41	33	(8)	33	52	50	(2)	49
Public Safety and Solicitor General	383	370	(13)	421	503	518	15	599
Skills Development and Labour	14	13	(1)	14	19	19	-	20
Small Business and Economic Development	120	116	(4)	154	143	143	-	256
Sustainable Resource Management	152	127	(25)	63	281	207	(74)	91
Transportation	610	588	(22)	623	811	811	-	820
Water, Land and Air Protection	102	100	(2)	88	148	148	-	129
Subtotal	4,768	4,716	(52)	5,213	6,425	6,471	46	7,077
Total ministries and Office of the Premier	**17,895**	**17,775**	**(120)**	**18,005**	**23,973**	**23,967**	**(6)**	**24,214**
Legislation	34	29	(5)	29	46	46	-	41
Officers of the Legislature	21	17	(4)	16	27	27	-	23
BC Family Bonus	46	45	(1)	59	59	59	-	80
Management of public funds and debt	598	510	(88)	559	800	691	(109)	738
Government restructuring (ministries)	-	-	-	45	-	-	-	168
Contingencies and new programs	-	10	10	1	240	240	-	-
Other appropriations	8	(3)	(11)	7	12	12	-	14
Subtotal	18,602	18,383	(219)	18,721	25,157	25,042	(115)	25,278
BC Rail investment partnership	-	335	335	-	-	391	391	-
Supplementary Estimates	-	-	-	-	-	1,002	1,002	-
Consolidated revenue fund expense	**18,602**	**18,718**	**116**	**18,721**	**25,157**	**26,435**	**1,278**	**25,278**
Less: Grants to agencies and other internal transfers								
Taxpayer-supported Crown corporations and agencies	(551)	(808)	(257)	(561)	(735)	(1,629)	(894)	(864)
School districts	(3,236)	(3,221)	15	(3,053)	(4,319)	(4,322)	(3)	(4,245)
Universities	(663)	(682)	(19)	(593)	(818)	(857)	(39)	(867)
Colleges, university colleges and institutes	(600)	(626)	(26)	(624)	(778)	(800)	(22)	(882)
Health authorities and hospital societies	(5,284)	(5,363)	(79)	(5,201)	(6,912)	(7,164)	(252)	(7,321)
CFD governance authorities	-	(1)	(1)	(2)	-	(1)	(1)	(3)
Add: Expenses recovered from external entities	1,177	1,116	(61)	1,165	1,632	1,619	(13)	1,717
	9,445	**9,133**	**(312)**	**9,852**	**13,227**	**13,281**	**54**	**12,813**
Taxpayer-supported Crown corporations and agencies (net of adjustments)	**1,428**	**1,388**	**(40)**	**1,454**	**1,904**	**2,002**	**98**	**2,111**
SUCH sector and regional authorities (net of adjustments)								
School districts	3,234	3,245	11	2,944	4,451	4,561	110	4,371
Universities	1,501	1,533	32	1,388	1,936	2,067	131	1,901
Colleges, university colleges and institutes	959	965	6	949	1,324	1,355	31	1,298
Health authorities and hospital societies[3]	5,498	5,551	53	5,467	7,598	7,719	121	7,708
CFD governance authorities	-	1	1	2	-	1	1	3
	11,192	**11,295**	**103**	**10,750**	**15,309**	**15,703**	**394**	**15,281**
Total taxpayer-supported expense	**22,065**	**21,816**	**(249)**	**22,056**	**30,440**	**30,986**	**546**	**30,205**

[1] Budget amounts and prior year comparative figures have been restated to reflect government's current organization and accounting policies.

[2] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

[3] Excludes $697 million of inter-entity transactions between health authorities and hospital societies.

Table 4.12 2004/05 Expense By Function

($ millions)	Year-to-Date to December 31 2004/05 Budget [1]	2004/05 Actual	Variance	Actual 2003/04 [1]	Full Year 2004/05 Budget [1]	2004/05 Forecast	Variance	Actual 2003/04 [1]
Health [2]	8,674	8,551	(123)	8,509	11,935	11,826	(109)	11,363
Social services	2,014	1,969	(45)	2,147	2,678	2,690	12	2,867
Education	6,385	6,366	(19)	6,002	8,788	8,988	200	8,600
Protection of persons and property	886	870	(16)	932	1,166	1,216	50	1,382
Transportation	950	1,023	73	971	1,265	1,453	188	1,310
Natural resources and economic development	937	957	20	1,112	1,321	1,549	228	1,511
Other	653	589	(64)	793	908	1,087	179	1,111
Contingencies (all ministries)	-	-	-	-	240	240	-	-
General government	369	345	(24)	342	478	460	(18)	518
Debt servicing	1,197	1,146	(51)	1,248	1,661	1,477	(184)	1,543
Total taxpayer-supported expense	**22,065**	**21,816**	**(249)**	**22,056**	**30,440**	**30,986**	**546**	**30,205**

[1] Budget amounts and prior year comparative figures have been restated to reflect government's current organization and accounting policies.

[2] The 2004/05 budget includes an additional $148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 *Supply Act*.

Table 4.13 2004/05 Capital Spending

($ millions)	Year-to-Date to December 31 2004/05 Budget	2004/05 Actual	Variance	Actual 2003/04	Full Year 2004/05 Budget	2004/05 Forecast	Variance	Actual 2003/04
Taxpayer-supported								
Education	453	675	222	590	604	791	187	831
Health	245	293	48	250	326	501	175	420
BC Transportation Financing Authority	425	390	(35)	286	500	579	79	430
Rapid Transit Project 2000	14	12	(2)	11	19	18	(1)	14
Vancouver Convention and Exhibition Centre expansion	37	28	(9)	43	70	37	(33)	56
Columbia River power projects [1]	-	-	-	-	90	-	(90)	-
Government operating (ministries)	158	59	(99)	68	257	241	(16)	185
Other [2]	37	21	(16)	30	77	64	(13)	18
Total taxpayer-supported	**1,369**	**1,478**	**109**	**1,278**	**1,943**	**2,231**	**288**	**1,954**
Self-supported								
BC Hydro	618	427	(191)	473	821	681	(140)	636
BC Rail	5	28	23	29	17	31	14	33
Columbia River power projects [1]	78	74	(4)	80	-	90	90	100
ICBC [3]	36	21	(15)	25	66	38	(28)	26
BC Lotteries	56	76	20	38	75	104	29	49
Liquor Distribution Branch	9	4	(5)	2	12	12	-	2
Total self-supported	**802**	**630**	**(172)**	**647**	**991**	**956**	**(35)**	**846**
Total capital expenditures	**2,171**	**2,108**	**(63)**	**1,925**	**2,934**	**3,187**	**253**	**2,800**

[1] Joint ventures of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). This capital spending has reverted to self-supported status.

[2] Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, and BC Transit.

[3] Includes ICBC Properties Ltd.

Table 4.14 2004/05 Capital Expenditure Projects Greater Than $50 million[1]

Note: Information in bold type denotes changes from the 2004/05 second *Quarterly Report*.

($ millions)	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2004[2]	Spending April 1 to Dec. 31	Cumulative Spending at Dec. 31, 2004	Total Project Budget[3]	Total Project Forecast[3]
Advanced Education facilities[4]							
UBC – Life Sciences Centre	Apr. 2002	Mar. 2005	72	38	110	110	110
SFU – Surrey Central City Campus	Mar. 2004	Sept. 2007	35	4	39	70	70
Total advanced education			107	42	149	180	180
Health facilities[4]							
Vancouver General Hospital redevelopment project	Sept. 2000	Jan. 2007[5]	83	9	92	156	156
Academic Ambulatory Care Centre	Fall 2004	Summer/06	-	3	3	95	95
Abbotsford Regional Hospital and Cancer Centre	**Fall 2004**	**Summer/08**	-	14	14	316	316
Total health facilities			83	26	109	567	567
Transportation							
Trans Canada Highway – 5 Mile (Yoho) Bridge	May 1999	Fall 2006	27	5	32	42[6]	42[6]
Nisga'a Highway	Aug. 1998	Fall 2005	38	4	42	52	52
Sea-to-Sky Highway	April 2003	Winter 2009	21	43	64	TBD[7]	TBD[7]
SkyTrain extension - phase 1	Sept. 1998	June 2006	1,062	12	1,074	1,167	1,107
Total transportation			1,148	64	1,212	1,261	1,201
Power generation							
BC Hydro							
– Georgia Strait pipeline crossing			**Project cancelled**[8]				
– Vancouver Island generation project			Project responsibility transferred to the private sector[9]				
– Seven Mile Dam safety improvements	June 1999	Mar. 2005	42	15	57	100	64
– Mica Dam – generator stator replacement	Feb. 2004	July 2009	-	2	2	52	63
– Peace Canyon Dam – generator stator replacement and rotor modification	Feb. 2004	July 2009	-	1	1	64	64
Brilliant Expansion Power Corporation[10]							
– Brilliant Dam power expansion	Oct. 2002	Aug. 2006	84	67	151	205	205
Total power generation			126	85	211	421	396
Other							
ICBC Properties Ltd.							
– Surrey Central City Mall Ltd.	Sept. 1999	Dec. 2005[11]	230	7	237	312	269
Vancouver Convention Centre Expansion Project	2003	2008	44	-	44	230	230[12]
Total other			274	7	281	542	499

[1] Only projects that have been approved by Treasury Board and/or Crown corporation boards are included in this table. Ministry service plans may include projects that still require final approval.

[2] Total expenditures since commencement of each project.

[3] Represents sum of annual budgeted expenditures to complete each project.

[4] Amounts shown exclude interest costs incurred during construction.

[5] Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.

[6] Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is $65 million.

[7] The provincial and private sector portions of this cost-shared project are to be determined. Total project cost is estimated at $600 million.

[8] Project has been cancelled as it is not compatible with Vancouver Island's energy requirements.

[9] Duke Point Power Limited Partnership was the successful proponent to provide electricity to Vancouver Island, subject to BC Utilities Commission approval. Some of the costs already incurred by BC Hydro will be recovered from the private sector proponent.

[10] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

[11] The base building was substantially completed in January 2003; however, work to prepare space for new tenants is still required.

[12] Amount represents the provincial portion of this cost-shared project with the federal government and the tourism industry.

Table 4.15 2004/05 Provincial Debt [1]

($ millions)	Balance March 31, 2004	Balance at December 31, 2004 Net Change [2]	Debt Outstanding Actual	Budget	Variance	Forecast at March 31, 2005 Net Change [2]	Debt Outstanding Forecast	Budget	Variance
Taxpayer-supported debt									
Provincial government operating [3]	15,694	(1,101)	14,593	16,769	(2,176)	(1,519)	14,175	16,558	(2,383)
Education facilities									
Schools	4,409	28	4,437	4,535	(98)	68	4,477	4,557	(80)
Post-secondary institutions	2,111	163	2,274	2,256	18	208	2,319	2,344	(25)
	6,520	191	6,711	6,791	(80)	276	6,796	6,901	(105)
Health facilities	2,215	12	2,227	2,455	(228)	178	2,393	2,479	(86)
Highways and public transit									
BC Transportation Financing Authority	2,764	(17)	2,747	2,919	(172)	(364)	2,400	2,874	(474)
BC Transit	83	(4)	79	85	(6)	(1)	82	88	(6)
Public transit	914	(10)	904	914	(10)	(7)	907	915	(8)
SkyTrain extension	1,119	13	1,132	1,137	(5)	19	1,138	1,141	(3)
	4,880	(18)	4,862	5,055	(193)	(353)	4,527	5,018	(491)
Other									
BC Buildings	317	(19)	298	280	18	(69)	248	247	1
Social housing [4]	156	(27)	129	179	(50)	21	177	180	(3)
Homeowner Protection Office	129	(6)	123	128	(5)	15	144	126	18
Columbia River power projects [5]	-	-	-	-	-	-	-	262	(262)
Other [6]	116	35	151	345	(194)	37	153	344	(191)
	718	(17)	701	932	(231)	4	722	1,159	(437)
Total taxpayer-supported debt	**30,027**	**(933)**	**29,094**	**32,002**	**(2,908)**	**(1,414)**	**28,613**	**32,115**	**(3,502)**
Self-supported debt									
Commercial Crown corporations and agencies									
BC Hydro	7,040	65	7,105	7,249	(144)	(152)	6,888	7,174	(286)
BC Rail	477	(365)	112	-	112	(477)	-	-	-
Columbia River power projects [5]	215	42	257	251	6	41	256	-	256
Liquor Distribution Branch	7	(1)	6	6	-	(1)	6	6	-
	7,739	(259)	7,480	7,506	(26)	(589)	7,150	7,180	(30)
Warehouse borrowing program	-	62	62	1	61	-	-	-	-
Total self-supported debt	**7,739**	**(197)**	**7,542**	**7,507**	**35**	**(589)**	**7,150**	**7,180**	**(30)**
Forecast allowance	-	-	-	-	-	**300**	**300**	**100**	**200**
Total provincial debt	**37,766**	**(1,130)**	**36,636**	**39,509**	**(2,873)**	**(1,703)**	**36,063**	**39,395**	**(3,332)**

[1] Debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt that is not provincially guaranteed.

[2] Gross new long-term borrowing plus net change in short-term debt outstanding, less sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[3] Restated to reflect a change in accounting policy for the defeasance of debt (2003/04 actual is reduced by $80 million and the 2004/05 budget estimate is reduced by $57 million).

[4] Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

[5] Joint ventures of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). This debt has reverted to self-supported status.

[6] Includes other taxpayer-supported Crown corporations and agencies, student loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

Table 4.16 2004/05 Statement of Financial Position

($ millions)	Actual March 31, 2004	Year-to-Date December 31, 2004	Forecast March 31, 2005
Financial Assets			
Cash and temporary investments	2,547	3,682	2,531
Other financial assets	6,492	5,891	7,539
Investments in commercial Crown corporations:			
Investments and retained earnings	3,230	3,439	3,231
Recoverable capital loans	7,512	7,100	6,883
	10,742	10,539	10,114
	19,781	**20,112**	**20,184**
Liabilities			
Accounts payable and accrued liabilities	6,792	6,587	6,931
Deferred revenue	2,683	2,655	4,112
Debt:			
Taxpayer-supported debt	30,027	29,094	28,613
Self-supported debt	7,739	7,542	7,150
Forecast allowance	-	-	300
Total provincial debt	37,766	36,636	36,063
Less: guarantees and non-guaranteed debt	(401)	(469)	(427)
	37,365	36,167	35,636
	46,840	**45,409**	**46,679**
Net Liabilities	**(27,059)**	**(25,297)**	**(26,495)**
Capital and Other Assets			
Tangible capital assets	22,253	22,671	23,143
Other assets	364	337	350
	22,617	**23,008**	**23,493**
Accumulated surplus (deficit)	**(4,442)**	**(2,289)**	**(3,002)**

Changes in Financial Position

($ millions)	Year-to-Date December 31, 2004	Forecast March 31, 2005
Change in accumulated deficit:		
Surplus for the period	(2,195)	(1,440)
Accounting policy equity adjustments	42	-
	(2,153)	**(1,440)**
Capital asset changes:		
Taxpayer-supported capital investments	1,478	2,231
Less: amortization and valuation adjustments	(1,087)	(1,355)
	391	**876**
Increase (decrease) in net liabilities	**(1,762)**	**(564)**
Investment and working capital changes:		
Increase (reduction) in cash and temporary investments	1,135	(16)
Increase in total investment in commercial Crown corporations	1,243	1,111
Less: loan repayments and valuation adjustments	(1,446)	(1,739)
	(203)	(628)
Other working capital changes	(368)	(521)
	564	**(1,165)**
Increase (decrease) in guarantees and non-guaranteed debt	**68**	**26**
Increase (decrease) in total provincial debt	**(1,130)**	**(1,703)**

APPENDICES

A1: Tax Expenditures

Introduction

A tax expenditure is the reduction in revenues from delivering government programs or benefits through the tax system rather than through voted budget appropriations. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower income families or to promote economic development and job creation.

Reporting tax expenditures improves government accountability by providing a more complete picture of government activities. The tax expenditure appendix outlines major tax expenditures for the 2004/05 fiscal year. It does not include tax expenditures introduced or expanded in *Budget 2005*. These are described in Part Two: Revenue Measures.

The Role of Tax Expenditure Programs

Using the tax system to deliver programs can reduce administration costs and compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by the Canada Revenue Agency. In addition, it would require individuals to undertake a separate, time-consuming application process in order to qualify for the benefit.

There are, however, several potential drawbacks to tax expenditure programs. First, their overall cost often receives less public scrutiny than is the case for spending programs because annual budget appropriations by the legislature are not typically required. Second, tax expenditure programs do not always effectively target those who are intended to benefit from them. Some expenditure programs that are intended to provide tax relief for low income earners may, in reality, confer the greatest benefit on high income earners who pay the most taxes. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Not all tax reductions, credits and exemptions are classed as tax expenditures. Three criteria were used to choose those features of the tax system that should be reported as tax expenditures.

First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. For example, most services are excluded from provincial sales taxes, which are primarily designed to apply to purchases of goods.

Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this appendix. This includes, for example, the hotel room tax revenues transferred to Tourism BC.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure.

British Columbia Tax Expenditure Programs

The following tables report 2004/05 tax expenditure estimates.

For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table A1.1):* These include tax expenditures that are offered as part of government's mix of health, education, housing, income transfer and family related programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for children's clothing and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table A1.2):* This category includes tax preferences for small businesses and measures to encourage new private sector investment.
- *Environmental Protection Programs (Table A1.3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay", such as the tire tax and battery levies. However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Within each table, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.

- *Federal Measures*: British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to maintain a consistent income tax base with the federal government in the interest of reducing administrative and compliance costs.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons:

- in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another; and
- eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

The estimates for each tax expenditure are based on a static analysis of the costs and do not take into account any behavioural changes which could change the cost over time.

Table A1.1 Social and Income Transfer Programs – Tax Expenditure

		2004/05 Estimated Cost ($ millions)
Provincial Sales Tax [1]		
Exemptions for the following items:		
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)		788
• Residential fuels (electricity, natural gas, fuel oil, etc.)		164
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances		86
• Children's clothing and footwear		23
• Clothing patterns, fabrics and notions		6
• Specified school supplies		48
• Books, magazines and newspapers		58
• Basic telephone and cable service		57
• "1-800" and equivalent telephone services		8
• Specified safety equipment		10
• Labour to repair major household appliances, clothing and footwear		7
• Miscellaneous consumer exemptions (e.g. used clothing under $100)		4
• Livestock for human consumption and feed, seed and fertilizer		39
Personal Income Tax		
Provincial Measures		
BC Family Bonus [2]		52
Sales tax credit		62
Political contributions tax credit		2
Provincial Non-Refundable Credits: [3]		
• Charitable donations tax credit		116
• Tax credits for tuition and education		44
• Tax credits for disabilities and medical expenses		51
• Pension income tax credit		21
• Credit for persons older than 65 years		63
• Married and equivalent-to-married credits		85
• Tax credit for Canada Pension Plan contributions		118
• Tax credit for Employment Insurance premiums paid		48
Federal Measures [4]		
• Deduction and inclusion of alimony and child support payments		5
• Child care expense deduction		27
• Exemption from capital gains up to $500,000 for small businesses and family farms		32
• Deduction for residents of northern and isolated areas		7
• Non-taxation of employer-paid insurance premiums for group private health and welfare plans		114
• Registered Retirement Savings Plans: [5]		
• exemption for – contributions	347	
– investment earnings	258	
• taxation of – withdrawals	(231)	
Total		374
• Registered Pension Plans: [5]		
• exemption for – contributions	260	
– investment earnings	408	
• taxation of – withdrawals	(367)	
Total		301

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Table A1.1 Social and Income Transfer Programs – Tax Expenditure – *Continued*

	2004/05 Estimated Cost ($ millions)
Corporation Income Tax [6]	
Charitable donations deduction	15
School and Rural Area Property Tax [7]	
Home Owner Grant	519
Exemption for places of worship	9
Property Transfer Tax	
Exemption for first-time home buyers	41
Exemptions for the following:	
• Property transfers between related individuals	33
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	4
• Property transfers to charities registered under the *Income Tax Act* (Canada)	9

[1] Estimates of the cost of sales tax measures are based on last year's estimates adjusted to reflect increases in the consumer price index and population growth.

[2] The $52 million represents the tax expenditure portion of the program's cost. The tax expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, of $59 million for 2004/05, is presented in the BC Benefits Vote because it represents payments to families which exceed their provincial income tax liabilities. In 2004/05, the total program cost was $111 million.

[3] Provincial non-refundable credits are generally based on estimates of credit claims by British Columbia residents.

[4] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in Government of Canada: Tax Expenditures and Evaluations, 2004. British Columbia personal income tax expenditures for the federal measures are based on the amounts claimed by British Columbia residents for the measure and the relevant provincial tax rates for the period. (Prior to 1997 federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[5] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[6] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. This is calculated from the federal revenue loss by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate.

[7] The property tax estimate is for the 2004 calendar year, and includes only school and rural area property taxes levied by the province. Home Owner Grant cost is shown for the 2004/05 fiscal year.

Table A1.2 Economic Development and Business Assistance Programs – Tax Expenditure

	2004/05 Estimated Cost ($ millions)
Fuel Tax	
Tax exemption for international flights carrying cargo	2
Tax exemption for family farm trucks (on road)	3
Tax reduction for compressor fuel used to transmit natural gas from wellhead to processing plant	13
Personal Income Tax	
Venture capital tax credit	24
Employee venture capital tax credit	5
Corporation Income Tax	
Provincial Measures	
Film and video tax credit	27
Production services tax credit	43
International financial business tax refund [1]	7
Scientific Research and Experimental Development Tax Credit	95
Mining Exploration Tax Credit	3
School and Rural Area Property Taxation [2]	
Assessment exemption of $10,000 for industrial and business properties	9
Overnight tourist accommodation assessment relief	3
Exemption for property used for pollution abatement [3]	6

[1] Includes employee income tax refunds.
[2] Estimates are for the 2004 calendar year and include only school and rural area property taxes levied by the province.
[3] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

Table A1.3 Environmental Protection Programs – Tax Expenditure

	2004/05 Estimated Cost ($ millions)
Provincial Sales Tax	
Exemptions for the following items:	
• Bicycles	8
• Specified energy conservation equipment	12
Fuel Tax	
Tax exemption for alternative fuels	17

Table A2 Interprovincial Comparisons of Tax Rates – 2005 (Rates known as of February 3, 2005) [1]

Tax	British Columbia [2]	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Corporation income tax (per cent of taxable income) [3]										
General Rate	13.5	11.5	17	15	14	8.9/16.25	13	16	16	14
Manufacturing Rate	13.5	11.5	10	15	12	8.9	13	16	7.5	5
Small Business Rate	4.5	3	5	5	5.5	8.9	2.5	5	7.5	5
Small Business Threshold ($000s)	400	400	300	400	400	n/a	425	300	300	300
Corporation Capital Tax [4]										
Non-financial	*Nil*	*Nil*	.6	3/.5	.3	.6	.3	25/.5	*Nil*	*Nil*
Financial	1.0/3.0	*Nil*	7/3.25	3.0	6/.72/.9	1.2	3.0	3.0	3.0	4.0
Health Care Premiums [5]										
Individual/family	54/108	44/88	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax [6] (per cent)	*Nil*	*Nil*	*Nil*	2.15	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent) [7]	2-4.4	2-3	3-4	2-3	2-3.5	2-3	2-3	3-4	3.5	4
Fuel tax (cents per litre)										
Gasoline [8]	14.5	9.0	15.0	11.5	14.7	19.2	14.5	15.5	17.0	16.5
Diesel	15.0	9.0	15.0	10.9	14.3	20.2	16.9	15.4	16.5	16.5
Sales tax (per cent)										
General rate	7	*Nil*	6	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	10	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	6	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes) [9]	35.80	32.00	39.20	39.90	23.45	20.60	28.10	36.30	34.90	37.30

[1] Rates shown are those known as of February 3, 2005 and that are in effect for 2005.

[2] British Columbia rates are those announced in the February 15, 2005 Budget.

[3] Manitoba has announced a reduction in its small business rate to 4.5 per cent and its general rate to 14.5 per cent in 2006. Ontario has a deduction of $5 million for all corporations. Manitoba has a $5 million deduction and the higher rate applies to corporations with taxable capital in excess of $10 million. Saskatchewan has a $10 million deduction with up to an additional $7.5 million proportional to wages and salaries paid in the province. Quebec has a $600,000 deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. Ontario and Quebec have an additional surcharge or compensation tax on financial institutions.

[5] British Columbia has a two-person rate of $96. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families. Ontario and Quebec levy health care contributions as additions to provincial personal income taxes payable.

[6] Provinces with payroll taxes provide payroll tax relief for small businesses.

[7] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance including automobile insurance. In Ontario, Quebec and Newfoundland specific sales taxes also apply to insurance premiums, except those related to individual life and health.

[8] Tax rate is for regular fuel used on highways. The British Columbia rate includes 6.75 cents per litre dedicated to the BC Transportation Financing Authority. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.

[9] Includes estimated provincial sales tax where applicable.

Table A3 Comparison of Provincial and Federal Taxes by Province – 2005

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Two Income Family of Four - $90,000						($)				
1. Provincial Income Tax	4,190	4,867	6,310	7,119	4,963	9,336	6,892	6,935	7,019	7,974
Net Child Benefits	0	154	0	—	0	(2,350)	0	0	—	0
2. Property Tax - Gross	2,210	2,087	3,138	4,907	3,276	2,946	2,451	2,410	1,658	1,700
- Net	1,740	2,087	3,138	4,507	3,276	2,946	2,451	2,410	1,658	1,700
3. Sales Tax	1,154	14	1,030	1,258	1,613	1,998	1,790	1,788	1,859	1,745
4. Fuel Tax	218	135	225	173	221	288	218	233	255	248
5. Provincial Direct Taxes	7,302	7,257	10,703	13,057	10,073	12,218	11,351	11,366	10,791	11,667
6. Health Care Premiums/Payroll Tax	1,296	1,056	—	1,935	1,755	3,834	—	—	—	1,800
7. Total Provincial Tax	8,598	8,313	10,703	14,992	11,828	16,052	11,351	11,366	10,791	13,467
8. Federal Income Tax	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529
9. Net Federal GST	1,662	1,739	1,639	1,592	1,661	1,679	1,566	1,565	1,678	1,527
10. Total Tax	20,789	20,581	22,871	27,113	24,018	28,260	23,446	23,460	22,998	25,523
Two Income Family of Four - $60,000										
1. Provincial Income Tax	1,990	2,308	3,307	3,717	2,460	4,905	3,723	3,723	3,893	4,341
Net Child Benefits	0	154	0	—	0	(3,450)	0	0	—	0
2. Property Tax - Gross	2,111	1,853	2,605	3,568	2,395	2,577	1,287	1,928	1,425	1,594
- Net	1,641	1,853	2,605	3,168	2,395	2,577	1,287	1,928	1,425	1,594
3. Sales Tax	898	11	817	1,003	1,273	1,700	1,421	1,421	1,472	1,394
4. Fuel Tax	218	135	225	173	221	288	218	233	255	248
5. Provincial Direct Taxes	4,747	4,461	6,954	8,061	6,349	6,020	6,649	7,305	7,045	7,577
6. Health Care Premiums/Payroll Tax	1,296	1,056	—	1,290	1,170	2,556	—	—	—	1,200
7. Total Provincial Tax	6,043	5,517	6,954	9,351	7,519	8,576	6,649	7,305	7,045	8,777
8. Federal Income Tax	5,799	5,799	5,799	5,799	5,799	5,799	5,799	5,799	5,799	5,799
9. Net Federal GST	1,295	1,414	1,300	1,270	1,311	1,429	1,243	1,243	1,329	1,219
10. Total Tax	13,137	12,730	14,053	16,420	14,629	15,804	13,691	14,347	14,173	15,795
Two Income Family of Four - $30,000										
1. Provincial Income Tax	0	0	574	432	393	(179)	1,109	891	1,014	1,312
Net Child Benefits	0	(712)	0	—	(383)	(4,160)	(52)	0	—	0
2. Property Tax - Gross	2,111	1,853	2,605	3,568	2,395	2,577	1,287	1,928	1,425	1,594
- Net	1,641	1,853	2,605	3,168	2,395	2,577	1,287	1,928	1,425	1,594
3. Sales Tax	666	9	593	740	919	1,405	1,020	1,028	1,065	1,009
4. Fuel Tax	145	90	150	115	147	192	145	155	170	165
5. Provincial Direct Taxes	2,452	1,240	3,922	4,455	3,471	(165)	3,509	4,002	3,674	4,080
6. Health Care Premiums/Payroll Tax	0	263	—	645	585	1,278	—	—	—	600
7. Total Provincial Tax	2,452	1,503	3,922	5,100	4,056	1,113	3,509	4,002	3,674	4,680
8. Federal Income Tax	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750
9. Net Federal GST	265	432	249	243	253	487	199	205	267	189
10. Total Tax	4,467	3,685	5,921	7,093	6,059	3,350	5,458	5,957	5,691	6,619
Unattached Individual - $25,000										
1. Provincial Income Tax	737	758	1,506	1,138	1,024	1,042	1,376	1,307	1,439	1,553
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Sales Tax	376	4	348	449	552	730	645	649	702	637
4. Fuel Tax	145	90	150	115	147	192	145	155	170	165
5. Provincial Direct Taxes	1,258	852	2,004	1,702	1,723	1,964	2,166	2,111	2,311	2,355
6. Health Care Premiums/Payroll Tax	259	528	—	538	488	1,065	—	—	—	500
7. Total Provincial Tax	1,517	1,380	2,004	2,240	2,211	3,029	2,166	2,111	2,311	2,855
8. Federal Income Tax	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232
9. Net Federal GST	252	263	235	241	242	274	218	220	257	210
10. Total Tax	4,001	3,875	4,471	4,713	4,685	5,535	4,616	4,563	4,800	5,297

Table A3 Comparison of Provincial and Federal Taxes by Province – 2005 – *Continued*

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
						($)				
Unattached Individual - $80,000										
1. Provincial Income Tax	5,238	5,656	7,633	8,549	6,212	10,940	8,363	8,473	8,622	9,685
2. Property Tax - Gross	1,453	1,830	2,036	3,119	2,293	2,578	977	2,041	1,300	1,300
- Net	983	1,830	2,036	2,719	2,233	2,578	977	2,041	1,300	1,300
3. Sales Tax	973	11	885	1,087	1,415	1,632	1,598	1,593	1,732	1,536
4. Fuel Tax	218	135	225	173	221	288	218	233	255	248
5. Provincial Direct Taxes	7,412	7,632	10,779	12,528	10,141	15,438	11,156	12,340	11,909	12,769
6. Health Care Premiums/Payroll Tax	648	528	--	1,720	1,560	3,408	--	--	--	1,600
7. Total Provincial Tax	8,060	8,160	10,779	14,248	11,701	18,846	11,156	12,340	11,909	14,369
8. Federal Income Tax	12,456	12,456	12,456	12,456	12,456	12,456	12,456	12,456	12,456	12,456
9. Net Federal GST	1,547	1,596	1,476	1,423	1,510	1,389	1,398	1,393	1,490	1,344
10. Total Tax	22,063	22,212	24,711	28,127	25,667	32,691	25,010	26,189	25,855	28,169
Senior Couple with Equal Pension Incomes - $30,000										
1. Provincial Income Tax	0	0	125	(400)	(418)	(300)	438	569	582	657
2. Property Tax - Gross	2,111	1,853	2,605	3,568	2,395	2,577	1,287	1,928	1,425	1,594
- Net	1,366	1,853	2,605	3,168	2,395	2,577	1,287	1,928	1,425	1,594
3. Sales Tax	717	8	637	762	980	1,350	1,213	1,209	1,259	1,237
4. Fuel Tax	145	90	150	115	147	192	145	155	170	165
5. Provincial Direct Taxes	2,228	1,951	3,517	3,645	3,104	3,819	3,083	3,861	3,436	3,653
6. Health Care Premiums/Payroll Tax	230	0	--	--	--	--	--	--	--	--
7. Total Provincial Tax	2,458	1,951	3,517	3,645	3,104	3,819	3,083	3,861	3,436	3,653
8. Federal Income Tax	599	599	599	599	599	599	599	599	599	599
9. Net Federal GST	697	694	650	604	648	715	627	623	732	648
10. Total Tax	3,754	3,244	4,766	4,848	4,351	5,133	4,309	5,083	4,767	4,900

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $60,000 annual income is assumed to have one spouse earning $40,000 and the other $20,000; the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000;the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Saskatchewan (Child Benefit), Ontario (Child Care Supplement for Working Families), Quebec (Integrated Child Allowance), New Brunswick (Child Tax Benefit), Nova Scotia (Child Benefit) and Newfoundland (Child Benefit). In addition, the Alberta government has chosen to vary the amount of the basic federal child tax benefit that its residents receive (shown as a net amount).

Property Tax

- Estimates of property taxes are from a survey of Royal LePage's on-line listings of residential properties for sale conducted in 2004. It is assumed that the individual at $25,000 rents accommodation; the family at $30,000 and at $55,000 and the senior couple own bungalows; the family at $90,000 owns a two-story executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the Survey of Household Spending in 2001. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

- Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost to employers of payroll taxes and health care premiums paid on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 2005. Taxes for other provinces were calculated using rates that were announced prior to February 3, 2005, and that come into effect during 2005.

Table A4 Interprovincial Comparisons of Provincial Personal Income Taxes Payable[1] – 2005 (Rates known as of February 3, 2005)

Taxable income[2]	British Columbia[3]	Alberta	Saskatchewan	Manitoba	Ontario	Quebec[3]	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
	Annual provincial taxes payable[4] ($)									
$10,000	0	0	119	77	0	(35)	154	0	0	219
$20,000	396	427	1,143	1,191	641	898	1,056	966	1,115	1,203
$30,000	1,175	1,358	2,167	2,231	1,504	2,450	1,957	1,858	2,028	2,210
$40,000	1,955	2,291	3,258	3,541	2,405	4,312	3,234	3,259	3,312	3,755
$50,000	2,867	3,286	4,552	4,935	3,466	5,940	4,710	4,713	4,687	5,366
$60,000	3,782	4,286	5,852	6,335	4,381	7,776	6,192	6,189	6,153	6,997
$70,000	4,795	5,286	7,152	7,905	5,497	9,903	7,751	7,856	7,942	8,958
$80,000	6,047	6,286	8,452	9,645	7,309	11,972	9,403	9,523	9,779	10,922
$100,000	8,865	8,286	11,052	13,125	10,791	16,084	12,707	13,206	13,453	14,850
$125,000	12,540	10,786	14,701	17,475	15,143	21,176	17,083	18,019	18,046	19,761
$150,000	16,215	13,286	18,451	21,825	19,496	26,105	21,543	22,831	22,638	24,671
	Provincial personal income taxes as a per cent of taxable income (%)									
$10,000	0.0	0.0	1.2	0.8	0.0	(0.4)	1.5	0.0	0.0	2.2
$20,000	2.0	2.1	5.7	6.0	3.2	4.5	5.3	4.8	5.6	6.0
$30,000	3.9	4.5	7.2	7.4	5.0	8.2	6.5	6.2	6.8	7.4
$40,000	4.9	5.7	8.1	8.9	6.0	10.8	8.1	8.1	8.3	9.4
$50,000	5.7	6.6	9.1	9.9	6.9	11.9	9.4	9.4	9.4	10.7
$60,000	6.3	7.1	9.8	10.6	7.3	13.0	10.3	10.3	10.3	11.7
$70,000	6.9	7.6	10.2	11.3	7.9	14.1	11.1	11.2	11.3	12.8
$80,000	7.6	7.9	10.6	12.1	9.1	15.0	11.8	11.9	12.2	13.7
$100,000	8.9	8.3	11.1	13.1	10.8	16.1	12.7	13.2	13.5	14.9
$125,000	10.0	8.6	11.8	14.0	12.1	16.9	13.7	14.4	14.4	15.8
$150,000	10.8	8.9	12.3	14.6	13.0	17.4	14.4	15.2	15.1	16.4

[1] Calculated for a single individual with wage income and claiming credits for Canada Pension Plan and Quebec Pension Plan contributions, Employment Insurance premiums and the basic personal amount.

[2] Taxable income, total income less allowable deductions, is defined by federal legislation in all provinces except Quebec. In the table, it is assumed that federally defined taxable income is equal to Quebec taxable income.

[3] Quebec residents pay federal tax less an abatement of 16.5 per cent of federal tax. In the table, the Quebec abatement has been used to reduce Quebec provincial personal income tax for comparative purposes.

[4] Includes provincial low income reductions in British Columbia, Manitoba, Ontario, Nova Scotia and Prince Edward Island, provincial surtaxes payable in Ontario, Nova Scotia, Prince Edward Island and Newfoundland and contributions to the Health Services Fund in Quebec. Excludes credits for sales and property taxes.

Table A5 Summary of Revenue Measures from July 30, 2001 to February 15, 2005[1]

	Taxpayer Impacts ($ millions)					
July 30, 2001 Economic and Fiscal Update	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Income Tax						
• 25 per cent personal income tax cut	(1,150)	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)
• Dividend tax credit rates reduced	20	40	40	40	40	40
• General corporate income tax rate reduced to 13.5% from 16.5%	(16)	(200)	(200)	(200)	(200)	(200)
• Manufacturing and processing tax credit repealed	20	30	30	30	30	30
Corporation Capital Tax						
• Tax phased-out for general corporations	(101)	(273)	(345)	(345)	(345)	(345)
Social Service Tax						
• Tax exemption for production machinery equipment	(107)	(160)	(160)	(160)	(160)	(160)
• Vehicle surtax threshold for passenger vehicles increased	(27)	(40)	(40)	(40)	(40)	(40)
Motor Fuel Tax						
• Tax exemption provided for marine bunker fuel	(7)	(10)	(10)	(10)	(10)	(10)
• Domestic jet fuel and aviation fuel tax rates reduced to 2 cents/litre	(10)	(15)	(15)	(15)	(15)	(15)
Total July 30, 2001 Update	(1,378)	(2,133)	(2,205)	(2,205)	(2,205)	(2,205)
Budget 2002						
Income Tax						
• Increase sales tax credit	(5)	(20)	(20)	(20)	(20)	(20)
• Adjust BC Family Bonus	-	8	19	19	19	19
• Raise small business threshold to $300,000	-	(10)	(13)	(13)	(13)	(13)
Medical Services Plan Premiums						
• Increase premiums and enhance premium assistance	-	358	392	392	392	392
Social Service Tax						
• Increase provincial sales tax rate to 7.5% from 7%	27	250	250	250	250	250
• Expand machinery and equipment tax exemption to include repair parts	(2)	(15)	(15)	(15)	(15)	(15)
Tobacco Tax						
• Increase tobacco tax rate to $30 from $22 per carton	16	150	150	150	150	150
School and Rural Area Property Taxes						
• Increase average gross residential rural and school property taxes by 2%	-	21	21	21	21	21
Miscellaneous measures						
• Disability credits; sales tax exemptions for farmers and refunds to Parent Advisory Councils	(1)	(6)	(6)	(6)	(6)	(6)
Total Budget 2002	35	736	778	778	778	778

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Table A5 Summary of Revenue Measures from July 30, 2001 to February 15, 2005[1] – *Continued*

	Taxpayer Impacts ($ millions)					
Budget 2003	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Income Tax						
• Increase budget for labour sponsored venture capital tax credits	-	-	(4)	(4)	(4)	(4)
• Introduce an equity tax credit for new media	-	-	(5)	(5)	(5)	(5)
• Provide an enhanced regional incentive for film credits	-	-	(1)	(1)	(1)	(1)
• Introduce a Digital Animation or Visual Effects tax credit	-	-	(5)	(5)	(5)	(5)
• Extend the BC Mining Flow-Through Share Tax Credit	-	-	(3)	(3)	(3)	(3)
• Extend the Mining Exploration Tax Credit for three years	-	-	(2)	(3)	(3)	(3)
• Introduce a book publishing tax credit	-	-	(2)	(2)	(2)	(2)
Corporation Capital Tax						
• Increase the capital tax exemption threshold for small financial institutions to $10 million from $5 million	-	-	(2)	(2)	(2)	(2)
Motor Fuel Tax						
• Provide exemption for marine gas oil used in gas turbine powered commercial vessels	-	-	(2)	(2)	(2)	(2)
BC Transportation Financing Authority Revenue						
• Increase the clear fuel tax rate levied on behalf of BC Transportation Financing Authority by 3.5 cents per litre	-	-	211	211	211	211
Tobacco Tax						
• Increase the tobacco tax rate to $32 from $30 per carton and to 16 cents from 15 cents per gram of fine-cut tobacco	-	-	25	25	25	25
School and Rural Area Property Taxes						
• Increase average gross residential rural and school property taxes by inflation	-	-	35	64	64	64
Insurance Premium Tax						
• Increase tax on property insurance to 4.4 per cent from 4 per cent to offset forest fire suppression costs	-	-	4	14	14	14
• Clarify the definition of taxable insurers	-	-	5	5	5	5
Property Transfer Tax						
• Enhance fairness and effectiveness of First-Time Home Buyers' exemption	-	-	(2)	(2)	(2)	(2)
Total Budget 2003	-	-	252	290	290	290
Budget 2004						
Income Tax						
• Reduce BC Family Bonus and BC Earned Income amounts	-	-	-	4	20	20
• Extend Scientific Research and Experimental Development Tax Credit	-	-	-	(35)	(60)	(60)
International Financial Business Tax Refund						
• Allow non-financial institutions to register, expand the list of qualifying activities and eliminate the employee tax refund	-	-	-	(4)	(5)	(5)
Tobacco Tax[2]						
• Increase tobacco tax rate to $35.80 from $32.00 per carton and to 17.9 cents per gram for fine-cut tobacco	-	-	10	40	40	40
Home Owner Grant Act						
• Increase the threshold for the home owner grant phase-out to $585,000 from $525,000	-	-	-	(7)	(7)	(7)
Ports Property Tax Act						
• Reduce property taxes on major BC port facilities and provide compensation to affected municipalities[3]	-	-	-	(7)	(7)	(7)
Total Budget 2004	-	-	10	(9)	(19)	(19)

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Table A5 Summary of Revenue Measures from July 30, 2001 to February 15, 2005[1] – *Continued*

	Taxpayer Impacts ($ millions)					
Budget 2005	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Income Tax						
• Introduce the BC Tax Reduction, a non-refundable personal income tax credit	-	-	-	(30)	(120)	(122)
• Extend the Mining Exploration Tax Credit to 2016	-	-	-	-	-	-
• Increase the Film Incentive BC and Production Services tax credit rates	-	-	-	-	(30)	(8)
• Increase corporate income tax small business threshold to $400,000 from $300,000	-	-	-	-	(10)	(10)
Social Service Tax Act						
• Reduce provincial sales tax rate to 7% from 7.5%[4]	-	-	-	(120)	(270)	(270)
• Increase incentives for purchases of hybrid passenger vehicles on a time-limited basis	-	-	-	-	(1)	(2)
• Provide time-limited exemption for ENERGY STAR residential heating equipment	-	-	-	-	(2)	(2)
• Increase vehicle surtax threshold for passenger vehicles to $49,000 from $47,000	-	-	-	-	(5)	(5)
Property Transfer Tax Act						
• Increase thresholds for First-Time Home Buyers' program	-	-	-	-	(15)	(15)
Medicare Protection Act						
• Enhance Medical Services Plan premium assistance	-	-	-	-	(27)	(40)
Home Owner Grant Act						
• Increase threshold for Home Owner Grant phase-out and reduce reduction rate	-	-	-	-	(3)	(3)
School Act						
• Exempt specified improvements of eligible hydroelectric projects	-	-	-	-	(1)	(1)
Total Budget 2005	-	-	-	(150)	(484)	(478)
Total Revenue Measures	(1,343)	(1,397)	(1,165)	(1,296)	(1,640)	(1,634)

[1] Amounts for each measure are as shown at the time of announcement before the impact of economic growth. Measures with no material revenue impact are excluded.

[2] Increase effective December 20, 2003.

[3] The amount shown includes the reduction in local and school property taxes for taxpayers.

[4] Rate reduced effective October 21, 2004.

Table A6 Operating Statement – 2001/02 to 2007/08

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported programs and agencies:							
Revenue	27,039	25,972	27,352	30,273	30,746	31,245	32,114
Expense	(30,723)	(30,398)	(30,205)	(30,986)	(32,456)	(32,847)	(33,494)
Taxpayer-supported balance	**(3,684)**	**(4,426)**	**(2,853)**	**(713)**	**(1,710)**	**(1,602)**	**(1,380)**
Commercial Crown corporation net income	1,085	1,766	1,894	2,453	2,330	2,252	2,130
Surplus/(deficit) before joint trusteeship and forecast allowance	**(2,599)**	**(2,660)**	**(959)**	**1,740**	**620**	**650**	**750**
Joint trusteeship	1,464	-	-	-	-	-	-
Forecast allowance	-	-	-	(300)	(400)	(450)	(550)
Surplus/(deficit)	**(1,135)**	**(2,660)**	**(959)**	**1,440**	**220**	**200**	**200**

Table A7 Revenue by Source[1] – 2001/02 to 2007/08

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxation revenue							
Personal income	5,366	4,150	4,877	5,055	5,202	5,509	5,828
Corporate income	1,522	612	775	1,256	1,075	1,080	1,096
Social service	3,552	3,795	4,001	4,066	4,113	4,319	4,531
Fuel	659	684	875	895	915	945	976
Tobacco	499	606	647	686	686	686	686
Property	1,481	1,541	1,576	1,643	1,706	1,781	1,851
Property transfer	303	407	518	600	460	410	420
Other [2]	728	557	539	540	535	533	545
	14,110	12,352	13,808	14,741	14,692	15,263	15,933
Natural resource revenue							
Natural gas royalties	836	1,056	1,230	1,451	1,555	1,684	1,589
Columbia River Treaty	360	100	230	255	250	225	215
Other energy and minerals	533	532	878	548	713	703	672
Forests	1,253	1,323	1,007	1,305	1,080	1,069	1,068
Other resources	298	270	308	301	320	379	380
	3,280	3,281	3,653	3,860	3,918	4,060	3,924
Other revenue							
Medical Services Plan premiums	954	1,355	1,409	1,458	1,427	1,422	1,429
Post secondary fees	452	580	781	829	924	985	1,060
Other healthcare-related fees	221	217	222	190	176	175	175
Motor vehicle licences and permits	342	351	363	380	389	399	408
Other fees and licences	1,073	1,056	765	816	774	733	699
Investment earnings	1,275	1,023	946	782	842	863	902
Sales of goods and services	890	875	629	688	680	705	721
Miscellaneous [3]	1,122	1,059	1,157	1,355	1,432	1,411	1,442
	6,329	6,516	6,272	6,498	6,644	6,693	6,836
Contributions from the federal government							
Health and social transfers	2,445	2,606	3,044	3,438	4,144	4,509	4,803
Equalization	158	543	(330)	980	590	-	-
Other cost shared agreements [4]	717	674	905	756	758	720	618
	3,320	3,823	3,619	5,174	5,492	5,229	5,421
Taxpayer-supported programs and agencies	**27,039**	**25,972**	**27,352**	**30,273**	**30,746**	**31,245**	**32,114**
Commercial Crown corporations							
BC Hydro (before regulatory transfers)	258	352	90	310	395	368	177
Liquor Distribution Branch	637	654	724	768	779	794	808
BC Lotteries (net of payments to the federal government)	598	663	719	842	892	942	1,021
BC Rail [5]	(166)	4	51	167	76	20	5
ICBC [5]	(242)	80	302	360	176	111	98
Other	-	13	8	6	12	17	21
	1,085	**1,766**	**1,894**	**2,453**	**2,330**	**2,252**	**2,130**
Total revenue	**28,124**	**27,738**	**29,246**	**32,726**	**33,076**	**33,497**	**34,244**

[1] In order to comply with generally accepted accounting principles, revenue of school districts, post-secondary institutions and regional health authorities/societies is included in the government's reporting entity beginning in 2004/05. To conform with this presentation, prior years have been restated based on unaudited financial information in the *Public Accounts*.

[2] Includes revenue from corporation capital, insurance premium and hotel room taxes.

[3] Includes asset dispositions, reimbursements for health care and other services provided to external agencies, and other recoveries.

[4] Includes contributions for health, education, housing and social service programs, for transportation projects, and for coastal ferry services.

[5] Amounts represent earnings during government's fiscal year.

Table A8 Expense By Function[1] – 2001/02 to 2007/08

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Health	10,673	11,059	11,342	11,810	12,569	13,036	13,307
Social services	3,438	3,105	2,821	2,651	2,788	2,794	2,795
Education	8,321	8,441	8,593	8,984	9,346	9,592	9,812
Protection of persons and property	1,187	1,219	1,353	1,192	1,223	1,226	1,232
Transportation	1,574	1,763	1,301	1,446	1,341	1,265	1,389
Natural resources and economic development	1,822	1,508	1,486	1,526	1,649	1,476	1,491
Other	821	827	1,107	1,123	1,095	982	891
Government restructuring (All Ministries)	347	172	-	-	-	-	-
Contingencies (All Ministries)[2]	-	-	-	191	270	270	310
General government	705	680	659	586	627	597	579
Debt servicing	1,835	1,624	1,543	1,477	1,548	1,609	1,688
Total expense	30,723	30,398	30,205	30,986	32,456	32,847	33,494

[1] In order to comply with generally accepted accounting principles, the expenses of school districts, post-secondary institutes and regional health authorities/societies are included in the government's reporting entity beginning in 2004/05. To conform with this presentation, prior years have been restated based on unaudited financial information in the *Public Accounts*.

[2] The Contingencies vote is allocated to functions according to actual results for 2001/02 to 2003/04. The 2004/05 forecast contingencies amount represents unallocated potential pressures, while the remainder of the budget is allocated to functions according to specific pressures.

Table A.9 Taxpayer-supported Entity Operating Statements [1] – 2001/02 to 2007/08

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported Crown Corporations and Agencies:							
BC Transportation Financing Authority							
Revenue	466	419	604	1,358	623	618	622
Expense	(466)	(439)	(479)	(551)	(577)	(516)	(661)
	-	(20)	125	807	46	102	(39)
Accounting adjustments	*(185)*	*(179)*	*(182)*	*(171)*	*(165)*	*(155)*	*(146)*
Net impact	(185)	(199)	(57)	636	(119)	(53)	(185)
British Columbia Buildings Corporation							
Revenue	465	485	517	423	394	383	378
Expense	(428)	(433)	(470)	(374)	(341)	(338)	(336)
	37	52	47	49	53	45	42
Accounting adjustments	*16*	*25*	*(4)*	*(3)*	*(3)*	*(5)*	*(6)*
Net impact	53	77	43	46	50	40	36
British Columbia Housing Management Commission							
Revenue	260	263	279	295	313	294	294
Expense	(260)	(263)	(279)	(295)	(313)	(294)	(294)
	-	-	-	-	-	-	-
Accounting adjustments		*10*	*8*	*(5)*	*(2)*	*(1)*	*(1)*
Net impact	-	10	8	(5)	(2)	(1)	(1)
British Columbia Transit							
Revenue	118	136	138	144	151	157	159
Expense	(119)	(136)	(138)	(144)	(151)	(157)	(159)
	(1)	-	-	-	-	-	-
Accounting adjustments	*(9)*		*(3)*				
Net impact	(10)	-	(3)	-	-	-	-
Tourism British Columbia							
Revenue	35	34	33	34	59	59	59
Expense	(36)	(34)	(37)	(34)	(57)	(59)	(59)
	(1)	-	(4)	-	2	-	-
Accounting adjustments	*(2)*	*1*		*8*			
Net impact	(3)	1	(4)	8	2	-	-
Other taxpayer-supported Crown corporations and agencies							
Revenue	1,601	1,212	748	647	659	680	692
Expense	(1,876)	(1,236)	(717)	(628)	(659)	(666)	(681)
	(275)	(24)	31	19	-	14	11
Accounting adjustments	*175*	*(62)*	*71*	*63*	*81*	*57*	*22*
Net impact	(100)	(86)	102	82	81	71	33
Total net impact	**(245)**	**(197)**	**89**	**767**	**12**	**57**	**(117)**

Table A.9 Taxpayer-supported Entity Operating Statements [1] – 2001/02 to 2007/08 – *Continued*

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
SUCH Sector and Regional Authorities:							
School Districts							
Revenue	4,308	4,417	4,455	4,669	4,730	4,788	4,792
Expense	(4,277)	(4,230)	(4,371)	(4,561)	(4,696)	(4,733)	(4,744)
	31	187	84	108	34	55	48
Accounting adjustments	*11*	*(37)*	*51*	*29*	*40*	*41*	*45*
Net impact	42	150	135	137	74	96	93
Universities							
Revenue	1,720	1,828	1,948	2,062	2,286	2,394	2,497
Expense	(1,612)	(1,712)	(1,901)	(2,067)	(2,221)	(2,342)	(2,451)
	108	116	47	(5)	65	52	46
Accounting adjustments	*31*	*70*	*71*	*9*	*5*	*5*	*8*
Net impact	139	186	118	4	70	57	54
Colleges, University Colleges, and Institutes							
Revenue	1,215	1,290	1,362	1,361	1,397	1,379	1,415
Expense	(1,212)	(1,257)	(1,298)	(1,355)	(1,402)	(1,392)	(1,422)
	3	33	64	6	(5)	(13)	(7)
Accounting adjustments	*51*	*14*	*10*	*6*	*8*	*12*	*16*
Net impact	54	47	74	12	3	(1)	9
Health Authorities							
Revenue	6,782	7,625	7,703	7,872	8,104	8,289	8,400
Expense	(6,836)	(7,623)	(7,755)	(7,817)	(8,104)	(8,289)	(8,400)
	(54)	2	(52)	55	-	-	-
Accounting adjustments	*(12)*	*155*	*103*	*(36)*	*(36)*	*(72)*	*(41)*
Net impact	(66)	157	51	19	(36)	(72)	(41)
Hospital Societies							
Revenue	558	594	649	603	597	597	598
Expense	(559)	(598)	(665)	(603)	(598)	(599)	(600)
	(1)	(4)	(16)	-	(1)	(2)	(2)
Accounting adjustments	*8*	*(1)*	*(25)*	*(3)*	*(2)*	*(2)*	*(2)*
Net impact	7	(5)	(41)	(3)	(3)	(4)	(4)
Children and Family Development Governance Authorities [2]							
Revenue	-	2	4	1	264	589	1,139
Expense	-	(1)	(3)	(1)	(264)	(589)	(1,139)
	-	1	1	-	-	-	-
Accounting adjustments	-	*1*	-	-			
Net impact	-	2	1	-	-	-	-
Total net impact	**176**	**537**	**338**	**169**	**108**	**76**	**111**

Table A.9 Taxpayer-supported Entity Operating Statements [1] – 2001/02 to 2007/08 – *Continued*

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Net operating statements of taxpayer-supported Crown corporations and agencies							
Revenue	2,945	2,549	2,319	2,901	2,199	2,191	2,204
Accounting adjustments	*(175)*	*(125)*	*(119)*	*(132)*	*(114)*	*(134)*	*(165)*
Net revenue	2,770	2,424	2,200	2,769	2,085	2,057	2,039
Expense	(3,185)	(2,541)	(2,120)	(2,026)	(2,098)	(2,030)	(2,190)
Accounting adjustments	*170*	*(80)*	*9*	*24*	*25*	*30*	*34*
Net expense	(3,015)	(2,621)	(2,111)	(2,002)	(2,073)	(2,000)	(2,156)
Net fiscal plan impact	**(245)**	**(197)**	**89**	**767**	**12**	**57**	**(117)**
Net operating statements of SUCH sector and regional authorities							
Revenue	14,583	15,756	16,121	16,568	17,378	18,036	18,841
Accounting adjustments	*(157)*	*(334)*	*(502)*	*(696)*	*(686)*	*(719)*	*(678)*
Net revenue	14,426	15,422	15,619	15,872	16,692	17,317	18,163
Expense	(14,496)	(15,421)	(15,993)	(16,404)	(17,285)	(17,944)	(18,756)
Accounting adjustments	*246*	*536*	*712*	*701*	*701*	*703*	*704*
Net expense	(14,250)	(14,885)	(15,281)	(15,703)	(16,584)	(17,241)	(18,052)
Net fiscal plan impact	**176**	**537**	**338**	**169**	**108**	**76**	**111**
Total net operating statements of taxpayer-supported entities							
Revenue	17,528	18,305	18,440	19,469	19,577	20,227	21,045
Accounting adjustments	(332)	(459)	(621)	(828)	(800)	(853)	(843)
Net revenue	17,196	17,846	17,819	18,641	18,777	19,374	20,202
Expense	(17,681)	(17,962)	(18,113)	(18,430)	(19,383)	(19,974)	(20,946)
Accounting adjustments	416	456	721	725	726	733	738
Net expense	(17,265)	(17,506)	(17,392)	(17,705)	(18,657)	(19,241)	(20,208)
Net fiscal plan impact	**(69)**	**340**	**427**	**936**	**120**	**133**	**(6)**

[1] Revenue and expense are shown as reported in the entity financial statements and service plans, before consolidation and accounting adjustments.
[2] The amount of funding to be transferred, and the timing of the transfer, will be based on an assessment of Authority readiness.

Table A10 Material Assumptions – Revenue

Revenue Source and Assumptions	Budget Estimate	Updated Forecast	Budget Estimate	Plan	Plan	Sensitivities
	2004/05		2005/06	2006/07	2007/08	2005/06
	($ millions)					
Personal Income Tax	**$5,005**	**$5,055**	**$5,202**	**$5,509**	**$5,828**	
BC personal income growth	4.0%	4.1%	4.5%	4.5%	4.4%	+/- 1% change in 2005 BC personal income growth equals +/- $50 to $100 million
BC tax base growth	4.7%	4.6%	4.7%	5.0%	4.9%	
Average tax yield	5.50%	5.48%	5.39%	5.44%	5.48%	+/- 1% change in 2005 BC personal income growth equals +/- $50 to $100 million and could result in a base change in 2005/06
	2003 Factors					
BC personal income growth	2.9%	2.7%				
BC tax base growth	3.4%	4.4%				
Average 2003 tax yield	5.46%	5.44%				
Corporate Income Tax	**$893**	**$1,256**	**$1,075**	**$1,080**	**$1,096**	
National tax base ($ billions)	129.9	138.6	146.1	155.5	164.9	+/- 1% change in the 2005 national tax base equals +/- $10 to $15 million
BC instalment share	8.74%	8.74%	9.08%	8.88%	8.62%	
Prior-year adjustments	-$49	$168	-$14	-$28	-$15	
Tax credits	-$172	-$172	-$206	-$191	-$191	
BC tax base ($ billions)	10.1	12.3	13.1	13.7	14.2	
BC tax base growth	7.0%	16.0%	6.0%	5.0%	3.6%	+/- 1% change in the 2004 BC tax base equals +/- $10 to $15 million in 2005/06
BC corporate profits growth	6.8%	19.9%	5.7%	5.2%	3.6%	
	2003 Factors					
BC corporate profits growth	1.1%	11.2%				
BC tax base growth	1.0%	14.3%				
National tax base growth	12.5%	10.0%				
BC share of national tax base	7.79%	9.08%				
2002 and prior-years revenue	$0	$26				
Tax credits	-$199	-$133				
Revenue is recorded on a cash basis. Due to lags in the federal collection and instalment systems, changes to the BC corporate profits and tax base forecasts affect revenue in the succeeding year. For example, 2005/06 instalments from the federal government are based on BC's share of the national tax base for the 2003 tax-year (assessed as of December 31, 2004) and a forecast of the 2005 national tax base. Cash adjustments for any under/over payments from the federal government in respect of 2004 will be received/paid on March 31, 2006.						
Social Service Tax	**$4,156**	**$4,066**	**$4,113**	**$4,319**	**$4,531**	
Consumer expenditure growth	4.8%	6.0%	5.3%	5.2%	5.0%	+/- 1% change in 2005 growth equals up to +/- $25 million
Business investment growth	5.7%	6.8%	8.6%	10.4%	8.3%	+/- 1% change in 2005 growth equals up to +/- $10 million
Other expenditure growth	3.0%	7.8%	1.6%	3.8%	3.8%	+/- 1% change in 2005 growth equals up to +/- $10 million
Tax rate reduced from 7.5% to 7.0%, effective October 21, 2004. There were no changes to the 10% rate on liquor and the 8%, 9% and 10% surtax rates on passenger vehicles. Full-year impact $270 million reduction in revenues.						
Fuel Tax	**$891**	**$895**	**$915**	**$945**	**$976**	
Real GDP growth	2.8%	3.0%	3.1%	3.0%	3.0%	+/- 1% change in real GDP equals up to +/- $10 million
Property Tax	**$1,655**	**$1,643**	**$1,708**	**$1,781**	**$1,851**	
BC Consumer Price Inflation	1.4%	2.0%	2.0%	2.0%	2.0%	+/- 1% change in new construction and inflation equals up to +/- $5 million in residential property taxation revenue
Housing Starts	28,949	32,908	31,985	31,711	31,280	
Residential (school purposes)	$628	$622	$652	$690	$733	
Non-residential (school purposes)	$983	$968	$991	$1018	$1044	
Rural Area	$71	$72	$74	$77	$80	
Other*	$65	$61	$59	$56	$54	A +/- 1% change in non-residential assessed values equals up to +/- $5 million
* Other includes BC Assessment Authority taxation revenue, municipal contributions to BC Transit and commissions paid to municipalities for the collection of provincial residential school purposes property taxes.						

Table A10 Material Assumptions – Revenue – *Continued*

Revenue Source and Assumptions	Budget Estimate 2004/05	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08	Sensitivities 2005/06
	($ millions)					
Petroleum, natural gas, minerals and Columbia River Treaty export electricity sales	**$2,031**	**$2,254**	**$2,516**	**$2,612**	**$2,476**	
Natural gas price ($Cdn/gigajoule at plant inlet)	$4.65	$5.52	$5.71	$5.75	$5.28	+/- $0.50 change in the natural gas price equals +/- $120 to $170 million
Natural gas volumes (annual per cent change)	5.1%	4.8%	4.0%	3.2%	3.2%	+/- 1% change in natural gas volumes equals +/- $10 to $15 million
Oil price ($US/bbl at Cushing, Ok.)	$27.75	$43.00	$40.44	$40.20	$37.50	
Auctioned land base (000 hectares)	954	559	600	680	700	+/- 5% change in the price or volume of auctioned land sales equals +/- $15 million
Average bid price/hectare ($)	$400	$424	$455	$456	$457	
Columbia River Treaty sales						
Annual quantity set by treaty (million mega-watt hours)	4.5	4.5	4.5	4.3	4.1	+/- 10% change in the average Mid-Columbia electricity price equals +/- $20 to $25 million
Mid- Columbia electricity price ($US/mega-watt hour)	$41	$47	$50	$48	$47	
Metallurgical coal price ($US/tonne, fob west coast)	$48	$51	$120	$110	$100	
Components of revenue ($ million)						
Natural gas royalties	$1,213	$1,491	$1,555	$1,684	$1,569	
Bonus bids, permits and fees	$435	$261	$255	$366	$377	
Petroleum royalties	$77	$112	$95	$94	$80	
Columbia River Treaty sales	$215	$255	$250	$228	$215	
Coal	$75	$26	$186	$195	$186	
Metals and other	$41	$61	$61	$21	$22	
Oil and Gas Commission fees	$25	$29	$29	$27	$27	
Forests	**$994**	**$1,305**	**$1,080**	**$1,069**	**$1,068**	
Prices (calendar year average)						
SPF 2x4 price ($US/1000 bd ft)	$380	$384	$410	$400	$400	+/- US$50 change in SPF price equals +/- $75 to $125 million
Hemlock price ($US/1000 bd ft)	$363	$515	$580	$600	$600	+/- US$100 change in hemlock price equals +/- $15 to $30 million
Pulp ($US/tonne)	$574	$616	$630	$625	$620	+/- US$50 change in pulp price equals +/- $5 to $10 million
Crown harvest volumes (million cubic metres)						+/- 10% change in Interior harvest volumes equals +/- $50 to $75 million
Interior	66.3	71.3	70.3	68.0	66.6	
Coast	15.6	17.4	17.0	17.0	17.4	+/- 10% change in Coastal harvest volumes equals +/- $10 to $20 million
Total	81.9	88.7	87.3	85.0	84.0	
BC Timber Sales included in above	11.8	11.8	11.7	11.7	11.5	
SUCH sector direct revenue	**$2,606**	**$2,728**	**$2,867**	**$2,865**	**$3,083**	
School Districts	$781	$816	$838	$861	$933	Management forecasts based on plans announced by the institutions included in the sector as at the dates of their submission
Universities	$1,101	$1,216	$1,479	$1,470	$1,551	
Colleges, University Colleges and Institutes	$545	$567	$584	$594	$599	
Health Authorities and Hospital Societies	$181	$127	$166	$140	$0	

Table A10 Material Assumptions – Revenue – *Continued*

Revenue Source and Assumptions	Budget Estimate 2004/05	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08	Sensitivities 2005/06
	($ millions)					
Health and social transfers	**$3,372**	**$3,438**	**$4,144**	**$4,509**	**$4,803**	
Equalization	**$402**	**$980**	**$590**	**$0**	**$0**	
$ Billions						
National cash excluding Trusts, Early Learning and Child Care, Health Reform Fund:						
September 2004 First Ministers' Meeting (FMM) and prior years	$20.400	$20.400	$21.000	$21.600	$22.200	
National Health Reform Fund (HRF) cash	$1.500	$1.500	$3.500	$0.000	$0.000	
National Early Learning Child Care (ELCC) cash	$2.075	$0.150	$3.225	$2.300	$0.350	
National cash from FMM:						
New Base Transfers HRF amounts in 2006/07	$0.000	$1.500	$2.500	$6.740	$7.598	
Wait Times	$0.000	$0.625	$1.625	$1.200	$1.200	
Capital	$0.000	$0.600	$0.000	$0.000	$0.000	
BC basic federal tax (BPT)	$11.9	$12.1	$12.7	$13.3	$13.9	+/- 0.1% change in BC's
National BPT	$98.8	$99.4	$106.1	$113.4	$120.9	population share equals
BC share of national population	13.1%	13.2%	13.2%	13.2%	13.2%	+/- $75 to $85 million
BC health and social transfers revenue ($ millions):						
Canada Health Transfer	$1,778	$1,778	$1,830	$2,059	$2,147	
HRF	$194	$197	$461	$0	$0	
FMM Base Funding	$0	$131	$329	$886	$1,000	
FMM Wait Times	$0	$82	$82	$158	$158	
FMM Referral Base and Wait Times	$0	$213	$14	$79	$109	
FMM Capital Equipment Funding	$0	$0	$0	$0	$4	
Canada Social Transfer	$1,089	$1,089	$1,126	$1,200	$1,319	
ELCC	$10	$20	$30	$39	$46	
Prior years	$1	$55				
2003 CHST Supplement Trust ($133 million)	$133	$133	$71	$0	$0	
2003 Medical Equipment Trust ($200 million)	$19	$46	$33	$17	$12	
2004 CHST Supplement Trust ($262 million)	$121	$141	$131	$0	$0	
2004 Home Investment Trust ($62 million)	$17	$17	$17	$14	$0	
Current cost of Equalization reduced ($ millions)						
Commodities total (new methodology)	$402	$980	$590	$0	$0	
Provinces	$0	$30	$0	$0	$0	
Prior years	$0	$280	$0	$0	$0	
Commercial Crown corporation net income	**$2,572**	**$2,493**	**$2,350**	**$2,292**	**$2,136**	
	The forecast assumptions of individual Crown corporations are described in their separate plans. The most significant are disclosed below.					
BC Hydro before deferral account transfers:	**$384**	**$318**	**$285**	**$368**	**$177**	
Sensitivity water inflows	$40+/-	$60+/-	$60+/-	$60+/-	$100+/-	Combined financial sensitivities
Sensitivity 2005 forecast						to Rate Model, future rate
Heavy gas prices	$100	$100	$40	$100	$40	increases and transfer to
Sensitivity of Surplus						up to +/- $300 million
Rate increases	1.0%	1.0%	0%	0%	0%	
ICBC	**$52**	**$295**	**$178**	**$101**	**$66**	
Investment income	$100	$80	$80	$80	$80	+/- $10 million = $5 million
Adjustment to premiums		$30				+/- 1% change = $50-60 million
Claims severity	2.00%	2.00%	2.00%	2.00%	2.00%	+/- 1% = $100 million
Claims frequency	1.00%	1.00%	1.00%	1.00%	1.00%	+/- 1% = $100 million

Table A11 Material Assumptions – Expense

Ministry Programs and Assumptions	Budget Estimate	Updated Forecast	Budget Estimate	Plan	Plan
	2004/05		2005/06	2006/07	2007/08
	($ millions unless otherwise specified)				
Advanced Education	**1,900**	**Unchanged**	**1,956**	**2,020**	**2,096**
Student spaces – (# of FTEs)	164,065	160,848	168,265	172,659	177,053
Attorney General	**469**	**469***	**475**	**487**	**490**
New cases filed/processed (# for all courts)	n/a	338,000	318,000	318,000	318,000
Crown Proceeding Act (CPA)	28	24	**28**	**28**	**28**
			Funding based on a historical ten-year average		
* Excludes *CPA* underspending					
Children and Family Development	**1,498**	**Unchanged**	**1,577**	**1,611**	**1,635**
Average children-in-care caseload (#)	9,300	9,108	9,000	9,000	9,000
Average annual residential cost per child in care ($)	25,900	26,500	26,500	26,500	26,500
Adult Community Living					
Residential Services					
Average caseload (#)	4,940	5,020	5,163	5,333	5,508
Average cost per client ($)	70,735	69,222	70,340	69,436	68,743
Day Programs					
Average caseload (#)	9,340	9,441	9,740	10,040	10,340
Average cost per client ($)	12,900	12,700	12,705	12,751	12,807
Education	**4,921**	**Unchanged**	**5,060**	**5,151**	**5,174**
Student Enrolment (# of FTEs)	574,219	574,230	568,591	563,039	558,141
Forests	**524**	**524***	**645**	**685**	**711**
Supplementary Estimates		111			
Direct Fire Fighting	60	65	55	55	55
Statutory Spending Authority		111	Funding based on historical average		
		169			
* Excludes Statutory Spending Authority					
BC Timber Sales	152	153	186*	229	230
			* Increase in capitalized expenditures in 2005/06 is the first year in which labour costs, which have been capitalized into inventory, are expensed as part of cost of goods sold		

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Table A11 Material Assumptions – Expense – *Continued*

Ministry Programs and Assumptions	Budget Estimate	Updated Forecast	Budget Estimate	Plan	Plan
	2004/05		2005/06	2006/07	2007/08
	($ millions unless otherwise specified)				
Health Services					
Budget 2004	10,542				
Health Accord	148				
Supply Act 2004-2005	10,690	Unchanged	11,392	11,796	12,090
Pharmacare	830	Unchanged	890	982	1,084
Demand/cost growth (per cent change)			7.2%	10.3%	10.4%
Medical Services Plan (MSP)	2,525	Unchanged	2,630	2,646	2,646
Regional Health Sector Funding					
Budget 2004	6,535				
Health Accord	148				
Supply Act 2004-2005	6,683	Unchanged	7,158	7,417	7,579
Human Resources	1,284	Unchanged	1,367	1,369	1,397
Supplementary Estimates		10			
Temporary Assistance annual average caseload (#)	56,200	54,000	50,550	48,900	48,300
			Includes expected to work, temporarily excused, and persons with persistent multiple barriers to employment. The expected to work caseload is sensitive to fluctuations in economic and employment trends in the service sector.		
Disability Assistance annual average caseload (#)	52,500	53,700	57,050	60,050	63,050
			The caseload for persons with disabilities is sensitive to aging of the population and overall health needs.		
Total annual average caseload (#)	108,700	107,700	107,600	108,950	111,350
			The average cost per case is sensitive to the composition of the caseload, and reported income. A 1% change in the annual average caseload or average cost per case will affect expenditures from $7 million to $9 million annually.		
Public Safety and Solicitor General	501	501*	545	549	552
Supplementary Estimates		3			
Emergency Program Act (EPA)	16	16	16	16	16
Statutory Spending Authority		15	Funding based on historical average		
* Excludes EPA Statutory Spending Authority		31			

Table A11 Material Assumptions – Expense – *Continued*

Ministry Programs and Assumptions	Budget Estimate	Updated Forecast	Budget Estimate	Plan	Plan
	2004/05		2005/06	2006/07	2007/08
	($ millions unless otherwise specified)				
Management of Public Funds and Debt	**800**	**691**	**730**	**747**	**771**
Interest rates for new provincial borrowing:					
Short-term	2.81%	2.42%	3.13%	3.75%	4.65%
Long-term	5.68%	5.28%	5.45%	5.78%	6.40%
CDN/US exchange rate (cents)	79.4	79.1	84.2	82.8	83.0
Government-Wide Issues					
Compensation			A new bargaining mandate is under development. A 1% increase in each of 2006/07 and 2007/08 could cost $160 million in 2006/07 and $320 million in 2007/08.		
Taxpayer-supported Crown corporations and agencies	**1,904**	**2,002**	**2,073**	**2,000**	**2,156**
	The forecast sensitivities of individual Crown corporations and agencies are disclosed in their service plans.				
SUCH sector expenses in excess of grant funding	**2,534**	**2,559**	**2,779**	**2,909**	**2,972**
School Districts	184	239	302	285	290
Universities	1,118	1,210	1,309	1,415	1,497
Colleges, University Colleges and Institutes	546	555	581	585	590
Health Authorities and Hospital Societies	686	555	587	624	595
	Management forecasts based on broad policy assumptions provided by the responsible ministries – subject to final review and approval by the various boards of these organizations.				

Table A12 Full-Time Equivalents (FTEs)[1,2] – 2001/02 to 2007/08

	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Ministries and special offices (CRF)	33,495	29,751	28,684	26,985	27,150	26,990	24,530
Taxpayer-supported Crown corporations and agencies	8,447	7,814	4,570	3,870	3,925	3,885	3,895
Regional authorities[3]	-	-	-	15	145	540	3,050
Total FTEs	**41,942**	**37,565**	**33,254**	**30,870**	**31,220**	**31,415**	**31,475**

[1] Full-time equivalents (FTEs) are a measure of staff employment. FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours an individual, full-time person would normally work in that period. This does not equate to the physical number of employees. For example, two half-time employees would equal one FTE, or alternatively, three FTEs may represent two full-time employees who have worked sufficient overtime hours to equal an additional FTE.

[2] FTE amounts do not include SUCH sector staff employment.

[3] Number of FTEs to be transferred and the timing of the transfers will be based on an assessment of authority readiness.

Table A13 Capital Spending – 2001/02 to 2007/08

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported							
Education	850	795	831	791	855	633	588
Health	275	422	420	501	753	662	500
BC Transportation Financing Authority	344	275	430	579	586	645	535
Rapid Transit Project 2000	210	35	14	18	13	13	-
BC Ferries	55	58	-	-	-	-	-
Vancouver Convention Centre Expansion Project	-	-	56	37	126	147	143
Government operating (ministries)	203	183	185	241	352	339	255
Other[1]	133	108	18	64	110	69	51
Total taxpayer-supported	**2,070**	**1,876**	**1,954**	**2,231**	**2,795**	**2,508**	**2,072**
Self-supported							
BC Hydro	545	741	636	681	829	1,008	993
BC Transmission Corporation	-	-	-	-	37	82	32
Columbia River power projects[2]	118	54	100	90	38	34	142
BC Rail	78	52	33	31	22	6	-
ICBC[3]	107	41	26	38	46	36	30
BC Lotteries	20	30	49	104	60	60	60
Liquor Distribution Branch	26	9	2	12	30	21	13
Total self-supported commercial	**894**	**927**	**846**	**956**	**1,062**	**1,247**	**1,270**
Total capital spending	**2,964**	**2,803**	**2,800**	**3,187**	**3,857**	**3,755**	**3,342**

[1] Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, and BC Transit.

[2] Joint ventures of the Columbia Power Corporation and Columbia Basin Trust.

[3] Includes ICBC Properties Ltd.

Table A14 Statement of Financial Position – 2001/02 to 2007/08[1]

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Upated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Financial assets							
Cash and temporary investments	2,323	2,487	2,547	2,531	1,845	1,529	1,162
Other financial assets	5,806	5,453	6,492	7,539	7,804	7,967	7,981
Investments in commercial Crown corporations							
Retained earnings	2,520	2,629	3,230	3,231	3,556	3,766	3,922
Recoverable capital loans	7,246	7,276	7,512	6,883	7,080	7,566	8,091
	9,766	9,905	10,742	10,114	10,636	11,332	12,013
Warehouse borrowing program assets	1,067	-	-	-	-	-	-
	18,962	**17,845**	**19,781**	**20,184**	**20,285**	**20,828**	**21,156**
Liabilities							
Accounts payable & accrued liabilities	5,327	5,920	6,792	6,931	7,081	7,047	7,115
Deferred revenue	1,961	2,444	2,683	4,112	4,048	4,022	4,009
Debt							
Taxpayer-supported debt	27,534	29,425	30,027	28,613	29,538	30,479	30,573
Self-supported debt	8,548	7,452	7,739	7,150	7,344	7,819	8,476
Forecast allowance	-	-	-	300	400	450	550
Total provincial debt	36,082	36,877	37,766	36,063	37,332	38,748	39,599
Less: guarantees and non-guaranteed debt	(464)	(415)	(401)	(427)	(421)	(412)	(549)
	35,618	36,462	37,365	35,636	36,911	38,336	39,050
	42,906	**44,826**	**46,840**	**46,679**	**47,960**	**49,405**	**50,174**
Net liabilities	**(23,944)**	**(26,981)**	**(27,059)**	**(26,495)**	**(27,675)**	**(28,577)**	**(29,018)**
Capital and other assets							
Tangible capital assets	21,260	21,538	22,253	23,143	24,046	25,646	26,289
Other assets	384	393	364	350	347	349	347
	21,644	**21,931**	**22,617**	**23,493**	**24,393**	**25,995**	**26,636**
Accumulated surplus (deficit)	**(2,300)**	**(5,050)**	**(4,442)**	**(3,002)**	**(3,282)**	**(2,582)**	**(2,382)**

[1] In order to comply with generally accepted accounting principles, fiscal data of school districts, post-secondary institutions and regional health authorities/societies is included in the government's reporting entity beginning in 2004/05. To conform with this presentation, prior years have been restated based on unaudited financial information in the Public Accounts.

Table A14a Changes in Financial Position – 2001/02 to 2007/08[1]

($ millions)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Change in accumulated (surplus) deficit							
(Surplus) deficit for the period	1,135	2,660	(959)	(1,440)	(220)	(200)	(200)
Accounting policy equity adjustments	162	90	351	-		-	-
	1,297	**2,750**	**(608)**	**(1,440)**	**(220)**	**(200)**	**(200)**
Capital asset changes							
Increase in taxpayer-supported capital investments	*2,070*	*1,876*	*1,954*	*2,231*	*2,795*	*2,508*	*2,072*
Less: amortization and other accounting changes	*(1,463)*	*(1,589)*	*(1,268)*	*(1,355)*	*(1,395)*	*(1,406)*	*(1,431)*
	607	**287**	**686**	**876**	**1,400**	**1,102**	**641**
Increase (decrease) in net liabilities	**1,904**	**3,037**	**78**	**(564)**	**1,180**	**902**	**441**
Investment and working capital changes:							
Increase (reduction) in cash and temporary investments	472	164	60	(16)	(686)	(316)	(367)
Increase (decrease) in warehouse borrowing investments	(245)	(1,067)	-	-	-	-	-
Increase in total investment in commercial Crown corporations	*410*	*984*	*1,206*	*1,111*	*1,387*	*1,457*	*1,426*
Less: loan repayments and other accounting changes	*(756)*	*(845)*	*(369)*	*(1,739)*	*(865)*	*(761)*	*(745)*
	(346)	139	837	(628)	522	696	681
Other working capital changes	642	(1,429)	(72)	(521)	259	143	(41)
	523	**(2,193)**	**825**	**(1,165)**	**95**	**523**	**273**
Increase (decrease) in guarantees and non-guaranteed debt	**(133)**	**(49)**	**(14)**	**26**	**(6)**	**(9)**	**137**
Increase (decrease) in total provincial debt	**2,294**	**795**	**889**	**(1,703)**	**1,269**	**1,416**	**851**

In order to comply with generally accepted accounting principles, fiscal data of school districts, post-secondary institutions and regional health authorities/societies is included in the government's reporting entity beginning in 2004/05. To conform with this presentation, prior years have been restated based on unaudited financial information in the *Public Accounts*.

Table A15 Debt Summary – 2001/02 to 2007/08[1, 2]

($ millions unless otherwise indicated)	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Taxpayer-supported debt							
Provincial government direct operating	13,779	15,447	15,694	14,175	13,990	13,633	12,744
Other taxpayer-supported debt (mainly capital)							
Education							
Schools[3]	4,126	4,333	4,409	4,477	4,617	4,760	4,943
Post-secondary institutions[3]	1,717	1,791	2,111	2,319	2,656	3,077	3,357
	5,843	6,124	6,520	6,796	7,273	7,837	8,300
Health[3]	2,075	2,146	2,215	2,393	2,755	3,103	3,318
Highways, ferries and public transit							
BC Transportation Financing Authority	2,514	2,661	2,764	2,400	2,716	3,063	3,391
BC Transit	79	87	83	82	88	82	73
Public transit	936	930	914	907	911	909	912
SkyTrain extension	1,044	1,105	1,119	1,138	1,152	1,165	1,166
Rapid Transit Project 2000 Ltd.	47	3	–	–	–	–	–
BC Ferries	19	–	–	–	–	–	–
	4,639	4,786	4,880	4,527	4,867	5,219	5,542
Other							
BC Buildings	596	456	317	248	193	174	157
Social housing[4]	299	161	156	177	181	175	166
Homeowner Protection Office	113	123	129	144	161	184	201
Other[5]	190	182	116	153	168	154	145
	1,198	922	718	722	703	687	669
Total other taxpayer-supported debt	13,755	13,978	14,333	14,438	15,598	16,846	17,829
Total taxpayer-supported debt	27,534	29,425	30,027	28,613	29,588	30,479	30,573
Self-supported debt							
Commercial Crown corporations and Agencies							
BC Hydro	6,670	6,784	7,040	6,888	7,029	7,457	7,970
BC Transmission Corporation	–	–	–	–	65	124	135
Columbia River power projects	194	166	215	256	246	235	369
BC Rail	614	494	477	–	–	–	–
Liquor Distribution Branch	13	9	7	6	4	3	2
	7,481	7,452	7,739	7,150	7,344	7,819	8,476
Warehouse borrowing program	1,067	–	–	–	–	–	–
Total self-supported debt	8,548	7,452	7,739	7,150	7,344	7,819	8,476
Total debt before forecast allowance	36,082	36,877	37,766	35,763	36,932	38,298	39,049
Forecast allowance				300	400	450	550
Total provincial debt	36,082	36,877	37,766	36,063	37,332	38,748	39,599
Debt as a per cent of GDP							
Provincial government direct operating	10.3%	11.2%	10.8%	9.1%	8.8%	8.0%	7.2%
Taxpayer-supported	20.5%	21.3%	20.8%	18.3%	18.2%	18.0%	17.3%
Total provincial	26.9%	26.7%	26.0%	23.1%	23.0%	22.9%	22.4%

Debt is after deduction of sinking funds and government deposits, and includes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used in Budget 2005 and to reflect changes in underlying data.

[1] Includes debt and guarantees incurred by the government on behalf of school districts, universities, colleges and health authorities/hospital societies (SUCHs) and debt issues incurred by these entities.

[2] Effective April 1, 2003, the provincial coastal ferry system became independently operated by BC Ferry Services.

[3] Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

[4] Includes other taxpayer-supported Crown corporations and agencies, student loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs and loan guarantee provisions.

[5] A joint venture of the Columbia River Corporation (CRC) and Columbia Basin Trust (CBT).

[6] BC Rail debt was retired after completion of the BC Rail divestiture partnership.

Table A16 Key Debt Indicators – 2001/02 to 2007/08[1]

	Actual 2001/02	Actual 2002/03	Actual 2003/04	Updated Forecast 2004/05	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
Debt to revenue (per cent)							
Total provincial	92.0	104.4	100.3	87.5	89.3	91.1	90.5
Taxpayer-supported	99.9	110.0	106.7	89.7	92.2	93.4	91.6
Debt per capita ($)[2]							
Total provincial	8,848	8,962	9,096	8,595	8,805	9,049	9,149
Taxpayer-supported	6,752	7,151	7,232	6,819	6,982	7,118	7,064
Debt to GDP (per cent)[3]							
Total provincial	26.9	26.7	26.0	23.3	23.0	22.9	22.4
Taxpayer-supported	20.5	21.3	20.6	18.5	18.2	18.0	17.3
Interest bite (cents per dollar of revenue)[4]							
Total provincial	6.1	6.3	5.9	5.2	5.4	5.6	5.8
Taxpayer-supported	6.2	6.2	6.0	5.2	5.5	5.7	5.8
Interest costs ($ millions)[5]							
Total provincial	2,401	2,220	2,230	2,145	2,253	2,399	2,532
Taxpayer-supported	1,703	1,652	1,697	1,671	1,751	1,847	1,926
Interest rate (per cent)[6]							
Taxpayer-supported	6.5	5.8	5.7	5.7	6.0	6.1	6.3
Background Information							
Revenue ($ millions)							
Total provincial	39,229	35,311	37,653	41,225	41,820	42,548	43,775
Taxpayer-supported[7]	27,558	26,759	28,140	31,910	32,096	32,818	33,365
Total debt ($ millions)							
Total provincial	36,082	36,877	37,764	36,063	37,332	38,749	39,599
Taxpayer-supported[8]	27,534	29,429	30,027	28,613	29,568	30,479	30,673
Provincial GDP ($ millions)[9]	134,060	138,368	145,500	155,041	162,274	169,499	177,051
Population (thousands at July 1)[10]	4,078	4,115	4,152	4,196	4,238	4,282	4,324

[1] Includes fiscal data of school districts, post-secondary institutions and regional health authorities (provincial SOEs).

[2] The ratio of debt to population (e.g. 2005/06 debt divided by population at July 1, 2005).

[3] The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g. 2005/06 debt divided by 2005 GDP).

[4] The ratio of interest costs (less sinking fund income) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.

[5] Interest costs are net of sinking fund income.

[6] Weighted average of the cost of all outstanding debt issues.

[7] Includes revenue (excluding sinking fund income) of the consolidated revenue fund and revenue of all Crown corporations and agencies.

[8] Excludes revenue of commercial Crown corporations and agencies.

[9] Excludes debt of commercial Crown corporations and agencies. Public debt under the province's warehouse borrowing program and risk financial agreements.

[10] GDP for the calendar year ending in the fiscal year (e.g. GDP for 2005 is used for the fiscal year ending March 31, 2006).

[11] Population as at July 1st within the fiscal year (e.g. population as at July 1, 2005 is used for the fiscal year ending March 31, 2006).

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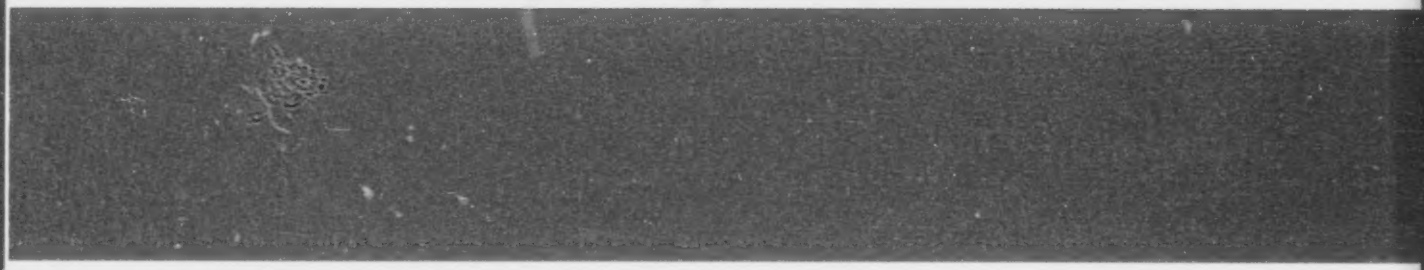

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BRITISH COLUMBIA
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BALANCED BUDGET 2005 HIGHLIGHTS

Towards a Golden Decade for British Columbia

***Balanced Budget 2005* shows what we can accomplish — as a province and a people — and it points the way to a future of growth, confidence and prosperity.**

In just three years, as a province, we have rebuilt our economy, revitalized our industries, and regained our role as a national leader. We have brought back investment, created hundreds of thousands of jobs, strengthened our communities, and won the right — in 2010 — to host the world's most prestigious cultural and sporting event.

Our province is now moving towards a golden decade and *Balanced Budget 2005* will help ensure all British Columbians share in the opportunities ahead with:

- long-term investments in our environment, and our communities;
- new measures to strengthen the economy;
- new supports for children with special needs and people with disabilities;
- thousands of new post-secondary spaces;
- the highest budgets ever for health care and education;
- the largest ever annual reduction in provincial debt; and
- income tax and MSP premium changes that, over three years, will leave $480 million in the pockets of those who need it most.

The challenge

The 1990s

- Underperforming economy
- BC was 9th in job growth
- Individuals and families were leaving BC
- Housing starts declined by 14.4% a year
- "Government is operating in a fundamentally unsustainable manner"- Fiscal Review Panel, July 2001

We responded with a plan

- Restore sound fiscal management - while protecting funding for health care and education
- Revitalize the economy

The plan is working . . .

- BC is an economic leader
- 1st in jobs growth since 2001
- People moving to BC
- 1st in housing starts growth in 2004
- Balanced budget: 2nd straight year and record debt paydown
- Spending on health and education protected and increased by $5.8 B since 2000/01

Sound Fiscal Management and Sustainable Future

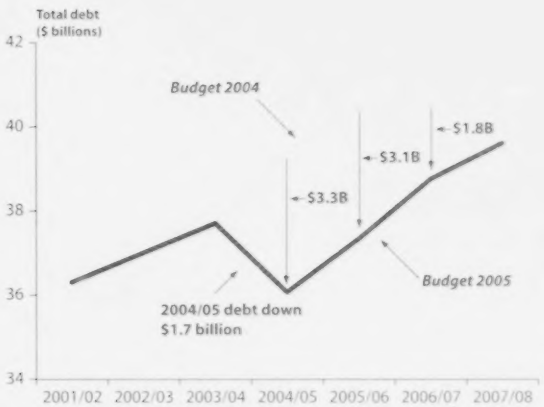
Near Record Surplus and Balanced Budgets

The revised surplus forecast for the current fiscal year is $1.4 billion, with a forecast allowance of $300 million, which, if not required, will result in a record surplus.

Balanced Budget 2005 forecasts surpluses of $220 million in 2005/06 and $200 million in each of 2006/07 and 2007/08. Forecast allowances and contingencies will protect the balanced budget projections against unforeseen events and revenue risks.

Near Record Surplus and Balanced Budgets

Debt Forecast Improves



Record $1.7 Billion Debt Paydown

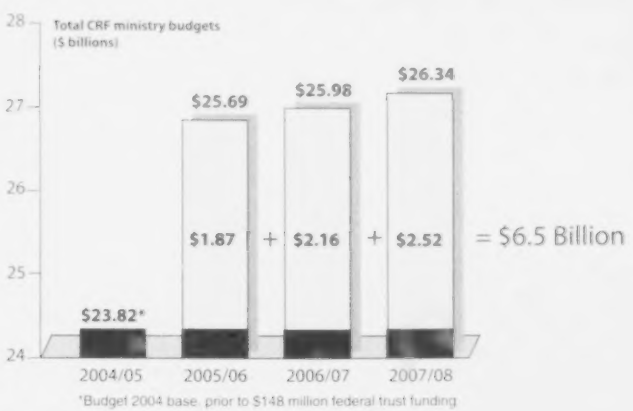
Total provincial debt at the end of 2004/05 is forecast at $36.1 billion, a $1.7 billion decline from the previous year and the largest annual debt reduction in B.C. history.

Balanced Budget 2005 includes a capital plan for ministries and taxpayer-supported agencies that is substantially higher in value than last year's plan. It includes an additional $1 billion in 2005/06 and $900 million in 2006/07 for planned and new construction of schools, colleges and universities, health facilities and transportation infrastructure.

More Services for British Columbians

Balanced Budget 2005 provides $6.5 billion over the next three years for increased ministry funding for health care, communities, children, education, public safety, economic development and the environment. Reflecting the ongoing service priorities of British Columbians, 71 per cent of the new funding is directed to health care and education.

More Services for British Columbians



*Budget 2004 base, prior to $148 million federal trust funding

British Columbia: The best place on Earth to live, work, and raise a family

***Balanced Budget 2005* supports tax reductions for lower and modest income British Columbians, measures to keep home ownership affordable, and increased funding to keep our families safe and strengthen our local communities.**

In 2001, the government reduced income taxes for B.C. families by an average of 25 per cent, and by 28 per cent for those earning less than $30,000 a year. With higher revenues fuelled by a stronger economy, the province is in a position to reduce taxes further.

The BC Tax Reduction

Effective this year, a new non-refundable personal income tax credit, the BC Tax Reduction, will reduce or eliminate provincial income taxes for about 730,000 British Columbians. Most individuals earning up to $16,000 a year will pay no provincial income tax and those earning up to $26,000 will pay lower tax.

Improved MSP Premium Assistance Program

A $4,000 increase in the threshold to qualify for the Medical Services Plan Premium Assistance Program will reduce or eliminate premiums for 215,000 people. This means:

- Single persons with net incomes of $20,000 or less will pay no premiums, and those earning up to $28,000 will pay lower premiums.
- Senior couples and families of four with net incomes of $29,000 or less will pay no premiums, and those with net incomes up to $37,000 will pay lower premiums.

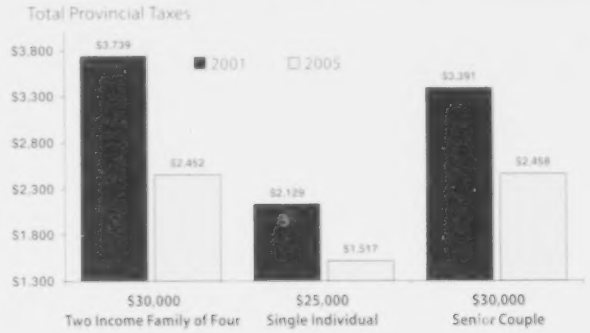
Over the next three years, the BC Tax Reduction and the enhanced MSP Premium Assistance Program will provide $480 million in tax reductions for lower and modest income families, seniors, and individuals.

Examples of Tax Savings

A senior couple with an income of $30,000 will now pay almost $930 less in total provincial tax than in 2001.

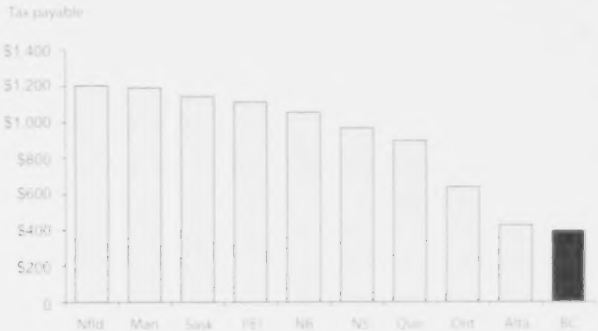
A family of four earning $30,000 will now pay almost $1,300 less in total provincial tax than in 2001.

Change in Taxes
2001 versus 2005



Taxes for 2001 are calculated based on rates in effect prior to June 2001; taxes for 2005 are calculated based on rates announced in Budget 2005. Includes provincial personal income, consumption, MSP premiums and estimated provincial and municipal property taxes.
Source: Ministry of Finance

Lowest income taxes at low income levels



Calculated for a single taxpayer with wage income of $20,000, no deductions and claiming the basic personal credit and credits for CPP contributions and EI premiums only.
Source: Ministry of Finance

Other Tax Reductions

Balanced Budget 2005 supports other tax reductions including:

- improvements to the First-Time Homebuyers Program, which exempts first time buyers from the property transfer tax on eligible residential properties;
- an increase to the vehicle surtax thresholds by $2,000 to eliminate the surtax on passenger vehicles valued below $49,000;
- other previously announced measures such as the reduction of the PST rate to 7 per cent from 7.5 per cent, increased film and television tax credits, and an improved threshold and phase-out rate for the Home Owner Grant Program.

BC Has Second Lowest Overall Taxes for Family of Four with $60,000 Income

Calculated for a family of four with one spouse earning $40,000 and the other earning $20,000. Taxes include income, consumption, health care premiums or payroll taxes and estimated provincial and municipal property taxes. BC taxes have calculated using rates in effect for 2005 and announced in Budget 2005; tax rates for other provinces are those in effect for 2005 (known as of February 3, 2005).
Source: Ministry of Finance

Community Infrastructure and Safety

Balanced Budget 2005 provides additional funding for community infrastructure and safety, including:

- $207 million for municipal and regional infrastructure across B.C.;
- $95 million to return traffic fine revenues to 70 municipalities for community policing, crime prevention, and other initiatives to make communities safer; and
- $122 million to add 215 RCMP officers throughout B.C. and increase support for provincial courts and corrections.

Through *Balanced Budget 2005*, the province will have funded $328 million of its $600 million commitment to the 2010 Olympic and Paralympic Games by 2007/08.

Great Goals for a Golden Decade

Balanced Budget 2005 supports the government's over-arching objective to help British Columbia realize its full potential as the best place on Earth to raise a family; to live and play; to work, invest and get ahead.

To guide its progress, the government has identified five great goals for the decade ahead.

1. To make B.C. the best educated, most literate jurisdiction on the continent.
2. To lead the way in North America in healthy living and physical fitness.
3. To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.
4. To lead the world in sustainable environmental management, with the best air and water quality and the best fisheries management, bar none.
5. To create more jobs per capita than anywhere else in Canada.

Balanced Budget 2005: To lead the world in sustainable environmental management, with the best air and water quality and the best fisheries management, bar none.

A healthy environment is critical to a healthy lifestyle. Balanced Budget 2005 provides an additional $150 million to preserve and protect our stunning natural surroundings that help define our province to the world.

These initiatives include:

- $91 million to remediate contaminated sites on Crown land;
- $5 million to increase the capacity of the Environmental Assessment Office;
- $16 million to establish the B.C. Conservation Corps, with up to 150 members, and the addition of up to 50 new park rangers and conservation officers.
- $30 million to support land-use planning activities; and
- $8 million to implement the *Drinking Water Protection Act*.

Balanced Budget 2005 also supports better protection for aquatic habitats with $6 million for fisheries inspection and monitoring and improvements in aquatic animal health.

British Columbians will benefit from safe, reliable and accessible drinking water and improved waste water systems with the creation of a new $80 million B.C. Community Water Improvement Program.

Tax changes to reduce greenhouse gas emissions

Balanced Budget 2005 encourages the development and use of cleaner, alternative energy sources with targeted tax changes that include:

- enhanced provincial sales tax (PST) relief for alternative fuel vehicles, including an exemption from provincial sales tax, up to a maximum of $2,000, for hybrid electric passenger vehicles (until March 31, 2008);
- a two-year PST exemption for energy efficient residential heating equipment; and
- a partial exemption from the property (school) tax for eligible hydroelectric projects.

BC's Credit Rating Upgraded

In November 2004, Standard and Poor's upgraded BC's credit rating to AA from AA-

S&P noted BC's record for:

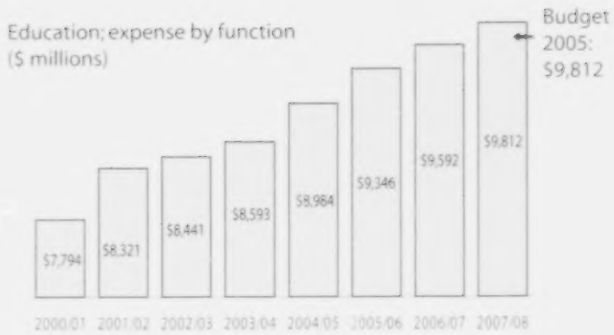
- consistently meeting budget targets;
- solid economic performance;
- enhanced fiscal transparency; and
- low debt to GDP ratios.

Balanced Budget 2005: To Make B.C. the best educated, most literate jurisdiction on the continent.

***Balanced Budget 2005* supports the highest education budget and highest per-pupil funding in British Columbia history**. More students than ever are completing high school, and they are getting the best marks ever in reading, writing and math. As students graduate, they will be able to pursue a wider range of opportunities as the province delivers the largest expansion of post-secondary education in over 40 years.

Total education spending, including K-12, advanced education and skills training, continues to increase each year and will reach $9.8 billion in 2007/08. That represents a $2 billion increase in annual spending since 2000/01.

$2.0 Billion Increase in Education Funding
Since 2000/01

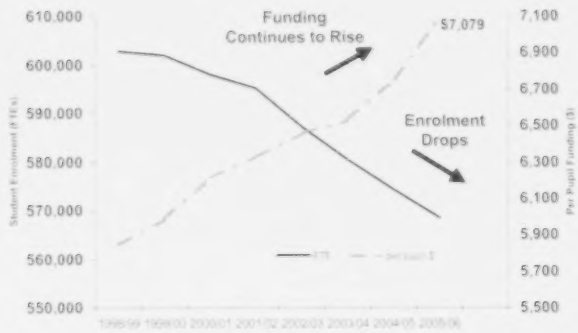


Education

Balanced Budget 2005 provides an additional $622 million to the Ministry of Education, which allows for a $150 million increase in funding for 2005/06 — the single largest funding increase in a decade. This funding will improve access to:

- school libraries and quality learning resources;
- music and arts programs;
- resources to support every special needs student; and
- a new school-based literacy innovation program.

Student Enrolment and Per Pupil Funding (Public Schools)



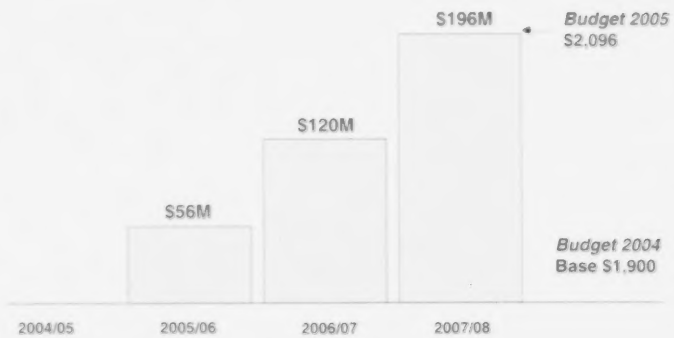
Post-Secondary Education

British Columbia will add 25,000 new post-secondary spaces by 2010.

Balanced Budget 2005 provides an additional $372 million in funding for post-secondary education, including fully funding the province's share of costs for 16,205 seats up to 2007/08 with an overall goal to add 25,000 seats by 2010.

The province will provide $450 million for student financial assistance including loan reductions for students in need, debt relief, a loan forgiveness program and grants for students with disabilities.

Post-Secondary Education Budget Change
Change from *Budget 2004* base
($ millions)



Literacy and Arts

Balanced Budget 2005 provides $12 million to public libraries across B.C. for new programs and initiatives including broadband Internet access, a 24-hour virtual reference desk and a one-card system to provide access to books in any B.C. library.

In addition, the budget provides $25 million for the Arts and Culture Endowment Fund that will leverage private sector support to build endowments for arts and culture organizations. The BC Arts Council will also receive an additional $3 million annually.

Balanced Budget 2005: To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.

***Balanced Budget 2005* protects and improves the quality of life for British Columbians most in need with additional funding of:**

- $194 million to increase income assistance for persons with disabilities by $70 per month — the largest one-time dollar increase in BC history, and the first significant increase in more than 10 years;
- $91 million for adult community living services;
- $36 million for social housing;
- $48 million for emergency shelters and support services for the homeless;
- $37 million for transition homes, outreach programs, related services for women and children fleeing domestic violence — the largest increase in over a decade;
- $15 million for family law initiatives designed to balance the needs of citizens with the capacity of the legal system;
- $26 million to support prevention and out-of-care options to keep children safe within their families and communities;
- $5 million to make more families eligible for child care subsidies; and
- $134 million to enhance services to children and youth with special needs.

Persons with Disabilities
Monthly Rate Increases

Persons with Disabilities
Monthly Rates Second Highest in Canada

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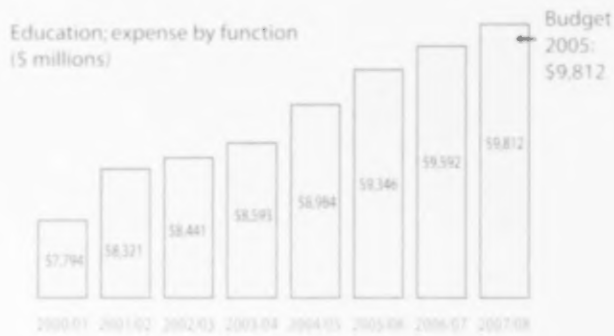

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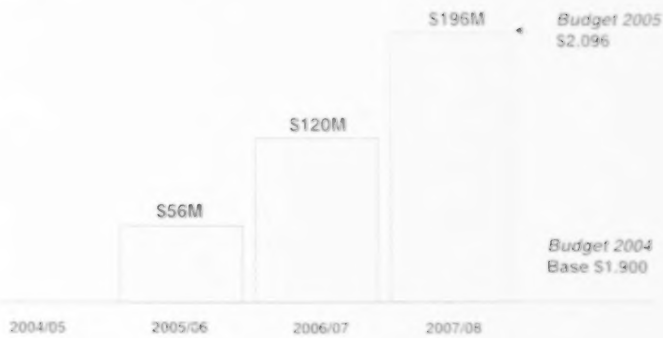

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Persons with Disabilities
Monthly Rate Increases

Persons with Disabilities
Monthly Rates Second Highest in Canada

Balanced Budget 2005: To lead the way in North America in healthy living and physical fitness.

Nothing is more important to our quality of living and lifestyle in British Columbia than our family's personal health and *Balanced Budget 2005* supports government's goal for British Columbians to be healthier and more physically active.

Annual health care funding will increase by $1.5 billion, the largest increase of any government function. Health care funding has increased every year, resulting in a $3.8 billion annual funding increase since 2000/01.

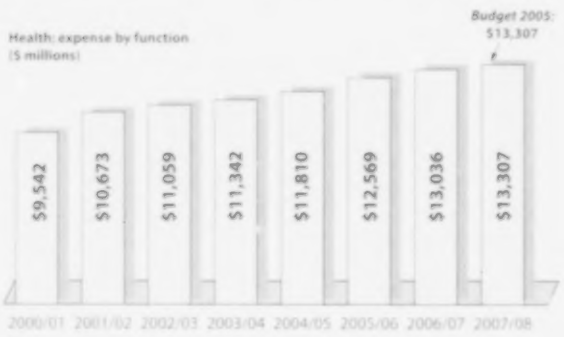
Balanced Budget 2005 will help improve access for critical services such as cancer care, cardiac care, joint replacements and sight restoration, through an additional:

- $465 million for PharmaCare;
- $200 million for better access to hip and knee replacements, diagnostics, and other acute care services;
- $100 million for public health initiatives including Act Now BC — a new health promotion and prevention program;
- $100 million to the BC Ambulance Service;
- $100 million for health research;
- $77 million for recruitment, training and retention of nurses; and
- $200 million to improve access to home care, residential care, palliative care, mental health and addictions services.

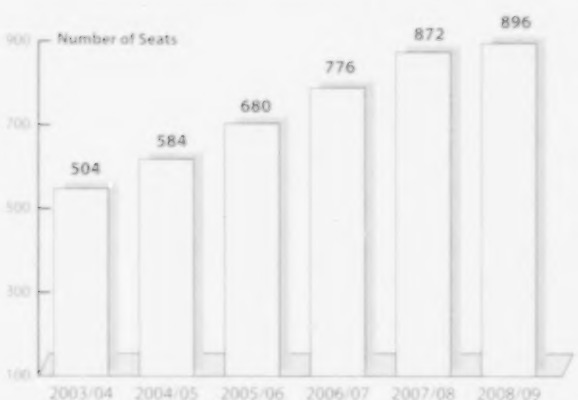
Balanced Budget 2005 also provides $76 million for infant and early childhood vision, dental and hearing screening initiatives.

To support physical fitness, *Balanced Budget 2005* provides $50 million for regional sports facilities and $60 million for major post-secondary sports training facilities.

$3.8 Billion Increase in Health Spending



Medical Students Enrolled



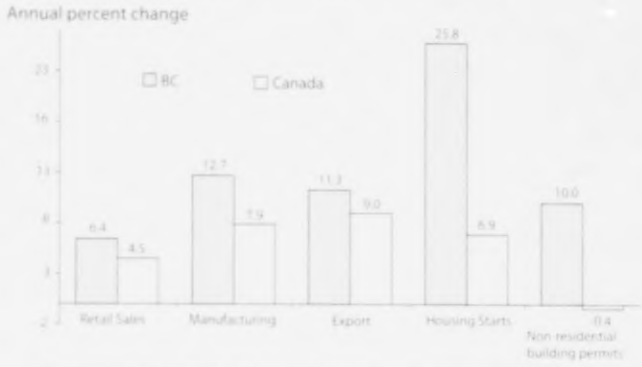
Balanced Budget 2005: To create more jobs per capita than anywhere else in Canada.

British Columbia's economy performed impressively in 2004, with robust domestic demand evident in strong growth rates for employment, consumer spending, home construction and non-residential investment.

Showing a huge improvement since the 1990s, B.C. now has the second-strongest economic growth rate among the provinces and is expected to continue outperforming the Canadian average in the years ahead.

Since December 2001, the province has created 197,500 new jobs and employment has grown more than 10 per cent, the fastest rate among provinces.

An Economic Leader in Canada

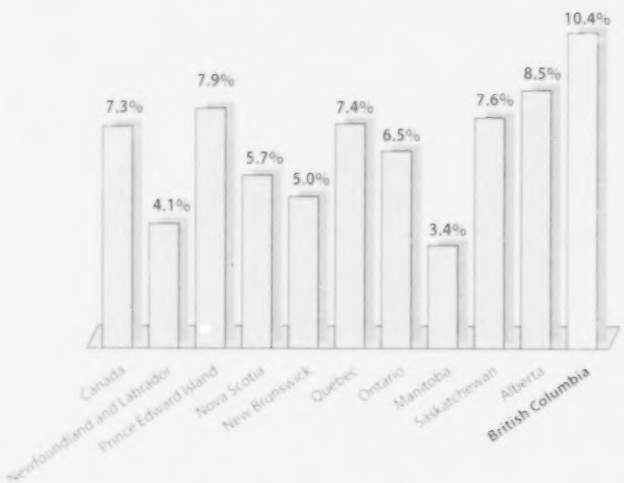


Source: Statistics Canada, CMHC. Data seasonally adjusted (except exports, housing starts and non-resident building permits). Data to November (except Housing Starts and building permits (December).

BC a leader in job growth since 2001

Source: Statistics Canada (January 26, 2005). Annual average numbers are unadjusted.

Employment Growth December 2001 to January 2005



***Balanced Budget 2005* supports continued investment in the province's transportation plan.** Over the next three years, the province's transportation plan provides:

- $32 million for airport and port improvements;
- $438 for highway rehabilitation;
- $225 million for improvements to Interior and rural side roads;
- $431 million for work on the Sea to Sky Highway, Okanagan Valley corridor, Okanagan Lake bridge, and the Kicking Horse Canyon project; and
- $279 for border crossing infrastructure and contributions to the RAV rapid transit project.

Great Goals for a Golden Decade

***Balanced Budget 2005* supports the government's great goal to create more jobs per capita than anywhere else in Canada with an additional $777 million for economic development initiatives across sectors and regions of province.**

More jobs in small business: improvements to the small business corporate income tax threshold to allow more business income to qualify for the lower 4.5 per cent small business tax rate.

More jobs in agriculture: an additional $49 million for programs to enhance the province's agricultural and aquaculture industries, and to protect food safety.

More jobs in Forestry: an additional $266 million to address the economic impacts of the mountain pine beetle and forest fires, while providing new opportunities to industry and communities.

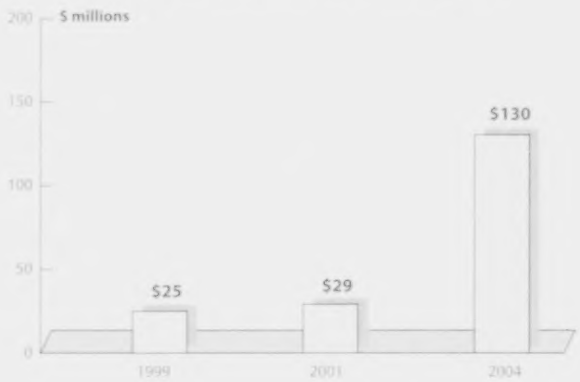
More jobs in Oil and Gas, and Mining: an additional $110 million to help create economic development opportunities in the oil, gas and mining sectors, and a 10-year extension of the Mining Exploration Tax Credit.

More jobs in Tourism: an additional $31 million to enhance economic development opportunities that build on British Columbia's thriving tourism industry

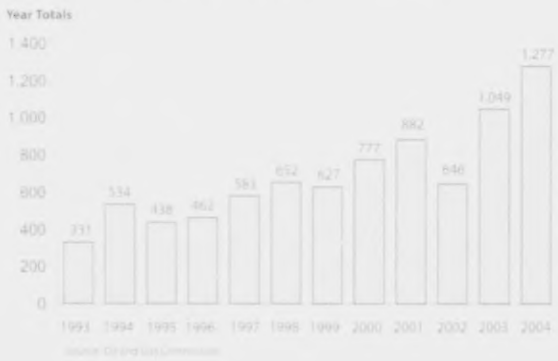
Better jobs for new British Columbians: more than $14 million for B.C. Skills Connect for Immigrants, a program to help new British Columbians find work in their fields of expertise.

More opportunities to reach markets: supports the government's Pacific Gateway Initiative to further develop the province's potential to and from international markets.

Mineral Exploration Has Quadrupled



Wells drilled (rig released) in BC



"Let me just remind the house that these new investments are possible because of economic growth and prudent fiscal management. For three years running, we have proven our ability to stick to our plan and to keep investments affordable.

That's why the major credit rating agencies have upgraded their outlook for our borrowing position. And it's why we are able to make the choices British Columbians want — for a province and a future that inspire pride and confidence.

This budget is all about the people of our province."

Finance Minister, Colin Hansen

Budget Speech

February 15, 2005

BRITISH
COLUMBIA

Ministry of Finance

BRITISH COLUMBIA
Ministry of Finance

BALANCED BUDGET 2005 SPEECH

Towards a Golden Decade for British Columbia

Finance Minister Colin Hansen
February 15, 2005

Introduction

Mr. Speaker.

It's truly a pleasure to stand before this House today and deliver the government's budget for the next three fiscal years.

It is, of course, a balanced budget — in every sense of the word.

It is, of course, a balanced budget — in every sense of the word. And that is a direct result of sound planning, discipline, and — most important — the countless contributions of our citizens.

This budget is all about the people of British Columbia — from Dease Lake to Fort Nelson to Port Renfrew to Sparwood.

It shows what we can accomplish — as a province and a people — and it points the way to a future of growth, confidence and prosperity.

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During the 1990s, we were facing a different future:

- — we were at the back of the pack in economic growth;
- — government spending was outpacing revenues;
- — communities were struggling;
- — families were struggling; and
- — young people were leaving the province to build their futures somewhere else.

When this government came to office, the province was in nothing short of an economic and fiscal mess. So we got right to work on a plan to balance the budget, and build the future our children deserve.

The promise we made was to restore hope and prosperity.

And our work plan included two key measures:

Number 1: Get our fiscal house in order, while protecting funding for health care and education; and

Number 2: Get the economy growing.

That was the plan. We've followed it through. We will continue to follow it through. And today's budget demonstrates beyond a doubt — The plan is working.

And we are, once again, leading the country in job creation — with almost 200,000 jobs created since December 2001.

We have tabled a balanced budget two years in a row. And we have put a law in place to make sure it stays balanced.

Funding for health and education has not only been protected; it has increased by more than $1.8 billion in the last three years alone.

BC's economy is not only growing, but diversifying and strengthening across a whole range of sectors . . .

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Clearly, the decade of decline is behind us.

We're on the brink of a new decade — a golden decade. And to guide our progress, we have five great goals:

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1. To make BC the best educated, most literate jurisdiction on the continent.
2. To lead the way in North America in healthy living and physical fitness.
3. To build the best system of support in Canada for persons with disabilities, those with special needs, children at risk, and seniors.
4. To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.
5. To create more jobs per capita than anywhere else in Canada.

These are ambitious goals but, when we work together, there are no limits to what we can achieve.

Look how far we've come in terms of our economic and fiscal performance.

Sound Fiscal Management and a Sustainable Future

Four years ago, BC faced a structural deficit of $4 billion.

Today, in complete contrast, we are on track to end the current fiscal year more than $1.3 billion ahead of the $100 million target set in Budget 2004.

That does not include the $300 million forecast allowance for the year just ending, which is there to protect against unforeseen events. If we are not required to use it by April 1, the surplus will be a record-high $1.74 billion.

Either way, we have a very significant fiscal dividend, resulting from a strong economy, prudent fiscal management, and a combination of ongoing and one-time federal transfers.

I want to emphasize the words "one time" because a large portion of the year-end dividend comes from one-time sources.

That means we have to invest these dollars carefully. They are not dollars we can count on for the long-term. And we don't have to look far to see the truth in those statements.

Four short years ago, another administration saw a dramatic rise in revenues in one year — and did not manage it wisely, even though their own projections showed that it was a fiscal anomaly.

They built a budget that committed the province to spending more than taxpayers could actually afford. And they left British Columbians with a structural deficit.

We've done the opposite, creating a sustainable surplus, which supports an affordable course of long-term investment. And today we are announcing a measure to keep our plan affordable.

We are committing $1.7 billion in 2004/05 to paying down the provincial debt.

That is the single largest annual debt reduction in BC history.

It will help ensure that we are able to afford the investments in infrastructure that BC needs — including schools, health care facilities and highways.

While we will see debt from government operations continue to decline, these infrastructure investments will increase total debt.

We are committing $1.7 billion in 2004/05 to paying down the provincial debt.

That is the single largest annual debt reduction in BC history.

This must be considered in the context of a growing economy. That is why the standard measure of debt affordability is the ratio of taxpayer-supported debt to GDP.

That ratio is forecast to fall from 18.5% in the year just ending to 17.3% by the end of March 2008. And we are forecasting real economic growth of 3.1% in 2005 and 3.0% in each of the two following years.

We will, as promised, continue to balance the budget. In fact, we're forecasting surpluses in each of the next three years, supported by forecast allowances and contingency reserves.

In the year ahead, we are projecting a surplus of $220 million, protected by a cushion of $670 million.

These prudent "cushions" protect our plan, recognizing that budgets are projections, vulnerable to shifts in everything from borrowing rates to weather patterns.

In the year ahead, we are projecting a surplus of $220 million, protected by a cushion of $670 million.

In each of the two following years, we are projecting surpluses of $200 million, with cushions of $720 million and $860 million, respectively.

If, as in past years, we continue to do better than forecast, we can use those cushions to reduce future borrowing needs, or to pay down debt. And that will give the people of British Columbia even more choices.

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British Columbians' Priorities

During the fall, we went to the people and asked for their advice about which choices we should make in Budget 2005. A legislative committee held extensive consultations, and we mailed a questionnaire directly to households.

We asked British Columbians: What are your priorities?

And they told us — very clearly — to stick to our plan.

They said: Maintain your commitment to sound fiscal management.

They said: Continue working to support a strong economy.

They said: Maintain your commitment to health care and education, and to supporting those in need.

And we are doing all those things with Budget 2005.

Consistent with our plan, and with people's priorities, we are moving forward with our five great goals through a series of initiatives to help ensure:

- that BC continues to live within its means;
- that steady economic growth continues; and
- that its benefits are shared by British Columbians, in every region and corner of the province.

Towards the Best Economy

As a member of this government, I've had the opportunity to travel the province extensively and speak with people — year after year.

A year ago, it was obvious that BC was turning the corner. People in general were much more optimistic. But it wasn't universal. That sense of economic recovery had not yet reached every part of the province.

That has changed profoundly. We are now seeing gains in every geographic region.

Compared to December 2001, employment levels have increased by:

— 3.4% in the North Coast/Nechako region;

— more than 4% in the Northeast and Kootenays;

— 5.9% in the Cariboo; and

— by 15.4% in the Thompson-Okanagan.

We are seeing strong growth in other important areas, too, with:

— retail sales up 6.4% in 2004, compared to the previous year;

— exports up 11%;

— manufacturing up 12.7%; and

— housing starts up by 26% — more than four times the national average.

BC now has the second-strongest economic growth rate in Canada. That's a huge improvement from the 1990s. But we can do better. And we will.

Housing starts up by 26% — more than four times the national average.

We are now seeing gains in every geographic region.

We will achieve our great goal of creating more jobs per capita than anywhere else in Canada. And Budget 2005 supports that goal in a number of ways.

First, it includes a series of measures to help keep forestry — our single largest resource industry — sustainable.

We will achieve our great goal of creating more jobs per capita than anywhere else in Canada.

After the economic downturn of the 90s — thanks to the work done by industry, communities and government — forestry is thriving again. And BC has regained its leadership position in the North American industry.

However, our land base — the industry's foundation — has been devastated by wildfires and, even more dramatically, by the mountain pine beetle infestation, which has already damaged almost half the province's lodgepole pine forest.

Given time, and managed well, our forests will recover. But the impact on communities could be dramatic.

So we've developed a long-term plan to speed that recovery and minimize the impact of these natural disasters on British Columbia families.

We are investing more than $100 million by the end of our three-year plan:

— to facilitate new, creative ways of using beetle-damaged timber,

— to support planning for affected communities, and

— to increase reforestation of areas damaged by beetles and fires.

Combined, these measures will help keep forestry strong, sustainable and competitive.

As the Premier announced last month, we will also introduce legislation shortly to increase the Forestry Revitalization Trust Fund from $75 million to $125 million. And we are allocating a further $50 million in one-time funding for compensation for tenure reform — as part of forest revitalization.

Combined, these measures will help keep our Number One industry strong, sustainable and competitive.

We are also taking steps today to help make our mining industry stronger and more competitive.

Like forestry, mining has rebounded since the 90s and today it's poised for even more dramatic growth, fuelled by demand from fast-

developing countries such as India and China — and supported by a comprehensive 10-year Mining Plan.

2004 was the best year for BC mining in over a decade.

Exploration spending topped $130 million — up 400% in just three years. And that was due in part to the Mining Exploration Tax Credit, which had been set to expire in 2006.

Today, we are extending it for another 10 years, to 2016, to provide greater certainty and signal to investors that BC is not only back — we're here to stay.

2004 was the best year for BC mining in over a decade.

We're reinforcing that message with a one-time grant of $25 million to establish a new BC Centre for Geoscience.

Geoscience informs exploration and represents the first step in new mine development. And this new initiative will help make BC a global centre of excellence for geoscience — consistent with our broader plan to encourage new investment, and usher in a golden decade for mining in British Columbia.

Exploration spending topped $130 million — up 400% in just three years.

$20 million from the grant will directly support mineral exploration.

The balance will be used in partnership with the oil and gas industry to expand opportunities in central British Columbia.

Budget 2005 also builds on our highly successful Oil and Gas Development Strategy with:

— $50 million for road-building and upgrading, to lengthen the winter drilling season; and

— $17 million for additional initiatives, including engaging communities and stakeholders.

The province takes in more than $1.8 billion a year in oil and gas revenues. So we can expect a good return from these new investments, which will help the sector grow and create new opportunities.

We are also taking action today to help make BC's small business sector more competitive.

Small business drives this province, accounting for 98% of all businesses — and the majority of private-sector jobs — in British Columbia.

When small business thrives, the whole province benefits. So we are announcing a measure today to strengthen small business.

When small business thrives, the whole province benefits. So we are announcing a measure today to strengthen small business.

We are also planning for more than $3 billion in capital investments, over three years, to continue with the BC Transportation Plan.

Effective immediately, the BC small business corporate income tax threshold will rise from $300,000 to $400,000 — the second-highest threshold of its kind in the country.

This means small businesses will pay the significantly lower small business tax rate on earnings up to $400,000 each year.

It also means that, over the next three years, small business owners across BC will save a total of $50 million — money they can use to build their businesses, to hire more people, to support their communities and to support their local economies.

Recognizing that many small business owners — and workers — rely on vehicles to do their jobs, we are also raising the level at which the provincial vehicle surtax takes effect. This is of particular note to people in the North, and other rural areas where heavy-duty trucks are often a pre-requisite for bringing home a paycheque.

Effective tomorrow, the threshold will rise by $2,000 to $49,000, reflecting changes in vehicle prices since the threshold was last adjusted.

Whether you're going to work and back, getting goods to market or taking the kids to soccer practice, transportation is absolutely essential to our daily lives.

It's vital to our economy, too. And yet, through the 90s, our transportation network was allowed to deteriorate.

In Budget 2003, we introduced a long-term transportation plan to catch up with maintenance and open up our province to renewed growth and investment. Today we're taking steps to advance the plan further, and to ensure that it continues to be affordable.

To that end, we are allocating $550 million in 2004/05 to the Transportation Financing Authority. This will reduce its debt and increase its borrowing capacity for future years.

We are also planning for more than $3 billion in capital investments, over three years, to continue with the BC Transportation Plan.

$2 billion of that is in direct provincial funding, including allocations for:

- airport and port improvements, including work at the Prince George airport and the Port of Prince Rupert;
- highway rehabilitation, including projects near Grand Forks, Williams Lake and Atlin;
- continuing improvements on the Sea-to-Sky Highway;

— improvements to Interior and rural side roads, including work in Nakusp, Lillooet and the Queen Charlotte Islands;

— work on the Okanagan Valley corridor and Okanagan Lake bridge;

— work on the Kicking Horse Canyon project;

— border crossing infrastructure; and

— provincial contributions to the RAV rapid transit project.

The balance of new capital funding — projected at $1.3 billion — will come through private-sector, local and federal government partnerships, as part of our broader Asia Pacific Gateway initiative.

That initiative will help us make the most of our unique position as Canada's gateway to the Asia Pacific, as we continue to open up our province to the world.

One of the ways we're doing that is with new investments in tourism.

Budget 2005 allocates a total of $81 million to further our goal of doubling tourism revenues within a decade.

Budget 2005 allocates a total of $81 million to further our goal of doubling tourism revenues within a decade.

We'll do it with the strategy we announced in November to facilitate the expansion and development of new and existing all-season resorts.

We'll do it with a trail system, and circle routes, encouraging more people to explore our regions. And we'll do it through a continued commitment to marketing, in partnership with the private sector, and with communities.

We'll do it with a trail system, and circle routes, encouraging more people to explore our regions. And we'll do it through a continued commitment to marketing, in partnership with the private sector, and with communities.

We are also working with industry partners to support and sustain the BC film sector.

Over the last decade, it's become an important part of — not just our economy, but our identity as a province.

Now it's facing pressures on a variety of fronts. And, as I announced last month, the government is helping to keep the industry competitive by increasing tax credits for foreign and domestic productions. These are part of a broader, industry-led effort to help the sector thrive in a highly competitive market.

Towards the Best In Environmental Management

One of our enduring competitive edges as a province is our natural environmental heritage.

One of our enduring competitive edges as a province is our natural environmental heritage.

We are committed to increasing that advantage by making BC a world leader in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.

We have made significant progress over the last three years:

- creating 37 new world-class parks and expanding 34 others;
- enhancing our ability to protect species at risk;
- introducing an action plan for safe, clean drinking water; and
- investing over $4 million in research promoting clean energy and fuel cells.

We are committed to making BC a world leader in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.

Budget 2005 accelerates our progress by — first of all — providing more than $58 million in one-time funding from the current fiscal year. This includes:

- $25 million to expedite the clean-up of contaminated sites, like the old Britannia Mine site;
- $6.5 million to strengthen the Habitat Conservation Trust Fund;
- a $5 million contribution to the Living Rivers Trust Fund; and
- $8 million to establish a new BC Trust for Public Lands to engage the private and not-for-profit sectors in acquiring private land, where it is significant for conservation purposes.

Along with those one-time investments, we are increasing the budget for the Ministry of Water, Land and Air Protection by $9 million over three years.

That will support the new BC Conservation Corps, with up to 150 members — and the addition of up to 50 new conservation officers and park rangers.

Combined, these initiatives will double the ministry's presence in the field — and move us closer to our goal of global leadership in environmental management.

But we are not stopping there. The province is developing a comprehensive strategy to invest in, expand and — increasingly — to export, BC's alternative energy expertise.

As part of that strategy, we are making a series of targeted tax changes, encouraging the development and use of cleaner, alternative energy sources.

First, we are providing property tax exemptions for environmentally friendly hydro projects. And we are exploring similar exemptions for other alternative energy sources, such as wind and geothermal.

Second, we are eliminating the PST for two years on a range of energy-efficient furnaces, boilers and heat pumps. That exemption takes effect at midnight tonight, and will continue to March 31, 2007.

Third, we are doubling the existing PST benefit for cleaner-running hybrid passenger vehicles — those with both an electric motor and an internal combustion engine.

As of midnight, buyers will save up to $2,000 in PST — twice the tax savings possible today. And the full benefit will be in place to March 31, 2008.

In total, these tax measures represent an investment of $14 million over three years — dollars that will help to protect our environment, meet our growing energy needs and stimulate further economic diversification.

...we are making a series of targeted tax changes, encouraging the development and use of cleaner, alternative energy sources.

BC's economy is more diverse than ever before. And today we hear, increasingly, not about people looking for jobs, but about jobs looking for people.

A significant part of our workforce growth comes from outside Canada.

We are the Asia Pacific gateway into Canada.

More than 25,000 immigrants settle here each year. And these individuals contribute so much.

But too many highly-skilled, well-trained immigrants cannot contribute to their full potential — because their credentials are not recognized here.

That affects their quality of life. It affects employers and communities. And it leaves a great source of potential untapped.

...these tax measures represent an investment of $14 million over three years — dollars that will help to protect our environment.

With that in mind, we are investing more than $14 million over three years in a new BC Skills Connect for Immigrants program to get skilled immigrants working in their fields of expertise more quickly.

...when you have sound fiscal management and a vibrant economy — you can afford to invest in the programs and services that help make BC the best place to live, work and raise a family.

With that in mind, we are investing more than $14 million over three years in a new BC Skills Connect for Immigrants program to get skilled immigrants working in their fields of expertise more quickly.

Through a combination of career assessment, planning and employment bridging services, the program will support at least 5,000 people, trained in a range of trades and professions.

They will be able to build their careers and share in the dream of British Columbia. And, in the process, their achievements will strengthen the province for all us.

Towards the Best in Health and Fitness

I said at the outset that this budget is all about people.

British Columbians have done the hard work to keep the cost of government down, and to get our province back on track.

They're the reason we balanced the budget. It was never an end in itself. We did it because, when you have sound fiscal management and a vibrant economy — you can afford to invest in the programs and services that help make BC the best place to live, work and raise a family.

We are committed to leading the way in North America in healthy living and physical fitness. And, as part of that commitment, Budget 2005 includes the second-largest funding increase for health care in BC history.

When this government came to office, the province was spending $9.5 billion a year on health care.

Today, the figure is $11.8 billion. And, by the end of our three-year plan, it will increase to $13.3 billion, for a total increase in annual spending of $3.8 billion.

Because we've made the system more efficient — more of those dollars than ever before will go directly to patient care, building on the improvements made since we came to office.

For example, in the first two years alone:

— the number of hip replacements performed in the province increased by 21%;

— knee replacements increased by 33%, and

— cataract surgeries increased by 20%

— angioplasties increased by 40%.

And that was just in the first two years.

Today, we have much to be proud of in health care, including among the nation's best:

— childhood immunization program;

— access to routine medical tests, and

— access to MRI and CT scans.

We're training and recruiting more doctors and nurses. And wait times for surgeries where lives are at stake are virtually non-existent.

We still face challenges, of course. But today, we are better prepared to meet them than ever before.

Over the next three years, the budget for the Ministry of Health Services will increase by $1.5 billion. That includes a significant increase in federal contributions — every cent of which will be invested in measures to improve and enhance British Columbians' health.

Over the next three years, the budget for the Ministry of Health Services will increase by $1.5 billion.

For example, we are committing, over the next three years:

— $465 million more for PharmaCare;

— over $100 million more for ambulance services;

— $77 million more for nurse recruitment, training and retention;

— over $200 million more to improve access to home care, residential care and palliative care, as well as mental health and addictions services; and

— an additional $200 million more for critical care services for cancer, cardiac, kidney and transplant patients — and for better access to hip and knee replacements, diagnostics and other acute care services.

We are also increasing health research funding by $100 million.

We are examining ways to keep intellectual property — such as patents — here in British Columbia, through changes to our tax system.

And we are investing an additional $100 million in public health promotion and prevention initiatives, including Act Now, a health

And we are investing an additional $100 million in public health promotion and prevention initiatives, including Act Now, a health and fitness program designed to make BC — by 2010 — the healthiest place to ever host the Olympics.

and fitness program designed to make BC — by 2010 — the healthiest place to ever host the Olympics.

Act Now will encourage choices that improve people's health and reduce their risk of illness. Over the long term, that will take some pressure off the health care system, so it can meet patients' needs even more effectively.

These commitments will ensure that patients receive faster access to medical services.

These new commitments to health care are considerable. They will help ensure that patients receive faster access to medical services and that wait times will be reduced for many British Columbians.

Health care improvements are just one example of the work we're doing to make BC the best place for everyone.

Towards the Best Supports for People

That means listening, and responding, to people's needs. It also means looking out for those who may not have a voice — the most vulnerable members of our society.

We've done that consistently for the last three years — with targeted initiatives to protect and improve the quality of life for British Columbians most in need.

Today, we are committing nearly half a billion dollars over three years in tax relief for lower-income British Columbians.

For example, we introduced a comprehensive program to help tens of thousands of people on income assistance find work. BC's welfare caseloads are now at their lowest levels in more than 20 years.

We put in place a program to encourage more families to adopt children in government care. The number of these adoptions has doubled since 2001. And we have delivered a range of other improvements for families and seniors.

In 2003, we brought in the Fair PharmaCare program to shrink prescription drug costs for about 280,000 low- and middle-income families and seniors.

We've increased by 50% the refundable sales tax credit.

And, when we reduced personal income taxes, we made sure that British Columbians in the two lowest tax brackets paid the lowest rates in the country.

Now we are building on that record of achievement.

Today, we are committing nearly half a billion dollars over three years in tax relief for lower-income British Columbians.

First, we are dedicating $120 million over three years to further reduce Medical Services Plan premiums for lower-income individuals, families and seniors.

Effective August 1, 2005, the net income thresholds for premium assistance will rise — in all categories — by $4,000. And that will make a real difference to hundreds of thousands of people.

For example, a senior couple whose annual income is $30,000 will save more than $460 a year.

And a family of four earning $35,000 will save over $500 a year.

In total, the change will reduce or eliminate MSP premiums for about 215,000 people.

In total, the change will reduce or eliminate MSP premiums for about 215,000 people.

We are also taking action today to ensure that British Columbians with low and modest incomes have the lowest income taxes in Canada.

Effective this tax year, a new, non-refundable income tax credit called the BC Tax Reduction will reduce or eliminate BC income tax for nearly three-quarters of a million British Columbians.

Most people earning less than $16,000 a year will pay zero BC income tax, and tax will be reduced for another 400,000 individuals.

Combined, these MSP and income tax changes will save lower-income earners $480 million over three years.

A senior couple with a net annual income of $30,000 will now pay over $900 a year less in provincial tax, compared to four years ago. And a family of four with the same annual income will pay almost $1,300 less.

Most people earning less than $16,000 a year will pay zero BC income tax, and tax will be reduced for another 400,000 individuals.

Those are just two examples of how we are making BC the best place on Earth to live.

With Budget 2005, we are also moving forward with our great goal of building the best system of support in Canada for persons with disabilities, those with special needs, children at risk, and seniors.

First, we are increasing the budget of the Ministry of Human Resources by $113 million over three years.

As more and more employable people move into jobs, an increasing proportion of the income assistance caseload is made up of people who have disabilities or other persistent barriers to employment. And these individuals need stable, long-term income support.

In December, persons with disabilities saw their monthly assistance cheque increase by $70 — the largest one-time dollar increase of its kind in BC history, and the first significant increase in over 10 years.

The previous government did not raise these rates in a meaningful way for one simple reason — they could not afford it. They destroyed the provincial economy, and did not have the capacity to help those most in need.

In December, persons with disabilities saw their monthly assistance cheque increase by $70 — the largest one-time dollar increase of its kind in BC history, and the first significant increase in over 10 years.

We can afford the increase because we have turned the BC economy around — and managed government prudently.

Now, we are building on the enhanced income assistance with a new investment of $91 million over three years to strengthen community living supports for adults with developmental disabilities.

As we announced earlier, we are also increasing support for women and children fleeing domestic violence. Over the next three years, funding for women's transition houses, counseling and related services will increase by $37 million — the largest increase in more than a decade.

To further support families in crisis, we are adding $15 million over three years for family law initiatives.

We are also moving forward with the homelessness initiative the Premier announced in October. It is a comprehensive strategy — with other levels of government — to address persistent housing needs and find new solutions to long-standing issues around addiction and mental illness.

This is about sharing the benefits of a stronger economy — and a stronger province.

Budget 2005 supports that strategy, dedicating $48 million to emergency shelters and supportive housing for people who are homelesss.

That is in addition to the $36 million allocated, over the next three years, to social housing for seniors, families and people with disabilities.

This is about sharing the benefits of a stronger economy — and a stronger province.

When you look at our performance; our levels of achievement; our return to our traditional role as a leader in this country . . .

You see that we have every reason to feel optimistic. And nowhere is that optimism stronger or more evident than in the dramatic growth in value in our housing sector.

In 2004, home sales averaged more than $2 billion a month.

Thousands of people are moving here, and putting down roots, because they feel a sense of incredible confidence about our future.

Thousands of people are moving here, and putting down roots, because they feel a sense of incredible confidence about our future.

That's great news for British Columbia.

But it can create challenges — for first-time home buyers, and for those on fixed incomes whose property values are soaring. So we are taking action to help keep housing affordable.

Last month, we increased the thresholds for the homeowner grant. Today, we are raising the thresholds for the first-time home-buyers' property transfer tax exemption.

Effective tomorrow, the thresholds will increase by 18% — helping thousands of families to buy their first homes.

It's always been part of the government's plan to make BC the best place for everyone to live, work and raise a family.

Towards Safer Communities

It has always been part of our plan to generate — and reinvest — fiscal dividends in key priority areas, including community safety.

For example, we have introduced initiatives such as:

— Amber Alert, to help find missing children;

— I-SPOT, a team that monitors sex offenders released from jail; and

— the Integrated Homicide Team which, since its inception in 2003, has greatly increased the proportion of homicide cases in which the Crown is able to lay charges.

These are great improvements — not just in safety, but in our communities and quality of life.

And last month, the Premier announced the single largest funding increase in more than 20 years for policing in our province.

And last month, the Premier announced the single largest funding increase in more than 20 years for policing in our province.

Budget 2005 supports that increase, allocating $122 million over three years to enhance policing and support for the courts and corrections. In total, we have committed nearly a quarter-billion dollars to public safety and crime fighting over the next three years.

A further $120 million is flowing to communities by 2008 from traffic fine revenues. And Budget 2005 allocates more than $200 million in new funding — by 2008 — for regional and municipal infrastructure.

In total, we have committed nearly a quarter-billion dollars to public safety and crime fighting over the next three years.

Communities will receive additional funding through the federal gas-tax sharing initiative. Details have yet to be negotiated. However, we can confirm that BC's share is $635 million over the next five years.

Year-by-year allocations are not final, so these dollars are not included in Budget 2005. But we will work with the Union of BC Municipalities — and the federal government — to help ensure that these dollars meet the diverse needs of BC communities, as they grow and build for the future.

Towards the Best for Our Children

When we talk about the future, we are, in a very real sense, talking about our children.

I expect that every member of this House shares the government's commitment to ensure that all our children get the best possible start in life.

The work we do today; the actions we take; the decisions we make; will all affect our children in the years ahead — and I expect that every member of this House shares the government's commitment to ensure that all our children get the best possible start in life.

Of course it's parents and family members who make the most important contributions to children's healthy development. But government also has a role in making sure that BC continues to be the best place to raise a family.

Today we are moving forward with a series of initiatives for BC's children — starting from the time they're born.

First, we are investing $76 million in early childhood screening initiatives.

Children will be screened for dental, hearing and vision impairments before Grade One. And those who need treatment or specialized assistance will receive it through a network of nurses, dentists, doctors, audiologists, optometrists and other professional service providers.

Second, we are investing over $130 million over three years to enhance services to children and youth with special needs and their families. This new investment will mean shorter waits for everything from therapies to specialized equipment to respite care for families.

Like the early screening program, this new strategy is comprehensive and coordinated across government. It includes:

- $14 million to the Ministry of Health Services for enhanced diagnostic and assessment services for children with developmental behavioral conditions;
- over $40 million to the Ministry for Children and Family Development for direct intervention and key family support services; and
- close to $80 million to the Ministry of Education to enhance services to children and youth with special needs in the school system.

...we are investing over $130 million over three years to enhance services to children and youth with special needs and their families.

We know that these are wise investments.

Research has clearly shown that early assessment, treatment and support can make a world of difference — in children's lives, in family's lives, in the lives of our communities. Because every one of us benefits when children — all children — have the opportunities they need to reach their full potential.

Research has clearly shown that early assessment, treatment and support can make a world of difference, in children's lives, in family's lives, in the lives of our communities.

That same philosophy underlies the government's commitment to early learning and child care — as part of a broader, national plan that includes substantial federal funding.

We expect the province to receive up to $650 million over five years for this initiative, starting in 2005/06.

Annual and provincial allocations are not finalized, so these dollars are not included in Budget 2005. But — as we have with health care dollars — we are committed to reinvesting every cent of that new funding to provide more accessible, affordable, inclusive care that emphasizes early learning.

Parents will have more choices; children will have more support; funding will be targeted to those in need — and we will see the dividends for many years to come.

We know — from countless studies, as well as from experience — that early learning gives kids a head start in life.

When they start school ready to learn, they're more likely to finish high school, more likely to find good jobs as adults, and more likely to raise their own families successfully.

So these are incredible investments in our future . . . as are the investments we continue to make in the province's education system.

Towards the Best in Education

One of the government's great goals for the golden decade ahead is to see this province become North America's most educated, most literate jurisdiction.

One of the government's great goals for the golden decade ahead is to see this province become North America's most educated, most literate jurisdiction.

That is why we're focusing on literacy — for all ages, with:

- $12 million over three years for libraries, and
- $5 million for a new, school-based literacy innovation program.

It is also why we continue to make targeted investments in the school system, to support student achievement.

We have increased funding to the Ministry of Education every year since taking office. And this year is no exception.

We are providing schools with an additional $150 million in the coming year — the single largest increase in a decade.

The budget for K-to-12 education for the coming year will, for the first time in BC history, surpass $5 billion. And it will rise by a further $114 million by the end of our current three-year plan.

As we announced earlier, we are providing schools with an additional $150 million in the coming year — the single largest increase in a decade.

Per-pupil funding will increase to $7,079 — up more than $860 per student, compared to 2001/02.

And we are dedicating $1.5 billion over 15 years to our ongoing, long-term plan to complete seismic upgrading for all schools at risk. We are moving ahead with this as quickly as industry capacity will allow.

We now have the highest education budget, and the highest per-pupil funding, ever in British Columbia. We also have some of the highest levels of student achievement.

More of our students than ever before are now completing high school.

They're getting the best marks ever in reading, writing and math.

And they're earning more provincial scholarships than ever — even though the total number of students is declining.

That's progress. And not just for students.

It's progress that points to a future of opportunity for all of us, as these young people step up and take their places as leaders, and innovators, across our society.

It's progress that points to a future of opportunity for all of us, as these young people step up and take their places as leaders, and innovators, across our society.

The first step in taking on those adult roles is, for a growing number of young people, higher education. And we are making significant new investments there, as well.

Over the next three years, we will allocate approximately $6 billion to the Ministry of Advanced Education.

Three-quarters of that will go directly to colleges, universities and other post-secondary institutions. And we will fully fund the province's share of the 25,000 new seats announced a year ago to meet skill shortages, including training more doctors, nurses and trades people.

We are also providing over $450 million over three years for student financial assistance, including:

— loan reductions for students in need;

— grants for students with disabilities;

— debt relief programs, and

— a loan forgiveness program that encourages health professionals to practice in under-serviced regions of the province.

...we continue to implement the largest expansion of post-secondary training opportunities since the 1960s.

We will continue to work with post-secondary institutions to keep tuition costs affordable. And we are working directly with employers, through the Industry Training Authority, to give our young people more opportunities to learn on the job.

In other words, work is well underway to meet skill shortages across our economy — as we continue to implement the largest expansion of post-secondary training opportunities since the 1960s.

Think about what that means for our province. Not just in terms of meeting skill shortages, but as a measure of our level of achievement and progress as a people.

Think about the impacts of all the improvements we're making — from targeted economic measures, to debt reduction, to new supports for children and those in need.

These measures show the kind of province we are building . . .

A province where the environment is clean and healthy; communities are safe; and people feel safe . . .

A province known for its culture of learning and innovation . . .

A province where:

— seniors and people in need have the best supports in Canada;

— our citizens are healthy and fit;

— our economy is strong and diverse; and

— all our children have the opportunities they need to reach their goals and achieve their full potential.

We've rebuilt our economy, revitalized our industries, and regained our role as a national leader.

Towards the Golden Decade

That's the kind of future we envision. And I have every confidence that we can achieve it — because I have confidence in the people of British Columbia.

I'm amazed at what they've accomplished in the past three years, proving to the world that with imagination, talent, careful planning and hard work — virtually nothing is beyond our grasp.

In just three years, we have turned this province around.

We've rebuilt our economy, revitalized our industries, and regained our role as a national leader.

As a province, we've brought back investment, created hundreds of thousands of jobs, strengthened our communities, and won the right — in 2010 — to host the world's most prestigious cultural and sporting event.

The challenge now — for all of us — is to build on that momentum, and Budget 2005 will help us do exactly that, with:

— long-term investments in our environment, and our communities;

— new measures to strengthen the economy;

— new supports for children with special needs and people with disabilities;

— thousands of new post-secondary training spaces;

— the highest budgets ever for health care and education;

— the largest-ever annual reduction in provincial debt; and

— income tax and MSP premium changes that, over three years, will leave $480 million in the pockets of those who need it most.

Let me just remind the house that these new investments are possible because of economic growth and prudent fiscal management. For three years running, we have proven our ability to stick to our plan and to keep investments affordable.

...these new investments are possible because of economic growth and prudent fiscal management.

That's why the major credit rating agencies have upgraded their outlook for our borrowing position. And it's why we are able to make the choices British Columbians want — for a province and a future that inspire pride and confidence.

This budget is all about the people of our province.

It's about the nurses and doctors and teachers and child care providers and all the individuals who dedicate their professional lives to caring for others, and helping them make the most of their potential.

It's about the loggers and miners and the other individuals who literally turn our natural resources into products — and the truck drivers and port workers and everyone else who helps to get those products to the marketplace.

For three years running, we have proven our ability to stick to our plan and to keep investments affordable.

It's about the small business owners, working round the clock to realize their own dreams and, in the process, generate jobs and strengthen our economy.

It's about the scientists and researchers and risk-takers, pushing the very boundaries of what is possible . . .

And it's about the moms and dads — juggling all the daily demands of work and life and raising a family — and knowing it's worth it, every time they see their children smile.

These are the people who built our province; who keep it going day to day. And these are the people who, one by one, are building the province's future — as we move towards a golden decade that, years from now, historians will point to as the decade that forever changed our destiny . . .

. . . and solidly established this great province as a national and global leader in everything from health status to literacy to job creation, to measures to protect our environment.

. . . and solidly established this great province as a national and global leader in everything from health status to literacy to job creation, to measures to protect our environment.

British Columbians have done the hard work. The pieces are in place.

We have a vision and, just as important, we have a proven plan to achieve it.

Budget 2005 is a vital part of that plan for the future.

So . . . let's get to work, in this house and across the province, and show the world — decisively — that British Columbia is indeed the best place on Earth to live, work and raise a family.

BRITISH COLUMBIA
Ministry of Finance

BALANCED BUDGET 2005 LEGISLATION SUMMARY

Budget Measures Implementation Act, 2005

Financial Administration Act

- this Act is amended to:
  - clarify the definition of public money; and
  - allow a minister to authorize payments out of the consolidated revenue fund if they are payable to or received by government.

South Moresby Implementation Account Act

- this Act is amended to allow the government to act in accordance with the federal-provincial agreement for the establishment of the South Moresby Park.

Special Accounts Appropriation and Control Act

- this Act is amended to:
  - establish the Production Insurance Special Account;
  - repeal a section related to the Habitat Conservation Fund Special Account.

Wildlife Act

- this Act is amended to change the structure of the board of the Habitat Conservation Fund to comply with accounting policy regarding trusts.

Income Tax Amendment Act, 2005

Income Tax Act

- this act is amended to:
  - introduce the BC Tax Reduction, a non-refundable personal income tax credit;
  - extend the Mining Exploration Tax Credit to 2016;
  - increase the Film Incentive BC basic tax credit to 30 per cent from 20 per cent and the Production Services tax credit to 18 per cent from 11 per cent for the period from January 1, 2005 to March 31, 2006;
  - increase the corporate income tax small business threshold to $400,000 from $300,000;
  - change the calculation of medical expenses incurred on behalf of dependent relatives that may be claimed;

- clarify that the determination of a refundable tax credit constitutes an assessment;
- limit the foreign tax credit that can be claimed by corporations;
- parallel the federal Act regarding the treatment of a series of transactions for purposes of the province's anti-avoidance provisions;
- confirm the existing practice of not charging taxpayers additional interest if the taxpayers' accounts are paid by the date specified in their notices;
- ensure that the Mining Exploration Tax Credit cannot be claimed on expenses incurred for purposes of the BC Mining Flow-through Share tax credit.

Taxation Statutes Amendment Act, 2005

Corporation Capital Tax Act

- this Act is amended to:
  - add a requirement that a financial corporation may only claim the investment allowance for another financial corporation if both corporations have the same year end;
  - require financial corporations to retain their books and records for specified periods.

Property Transfer Tax Act

- this Act is amended to:
  - increase the qualifying value of a property for the purposes of the First Time Home Buyers' exemption;
  - increase the amount by which first time home buyers registering their properties may reduce their mortgages during the first year without becoming taxable.

Home Owner Grant Act

- this Act is amended to:
  - increase the threshold for the home owner grant phase-out;
  - reduce the phase-out rate of the home owner grant to $5 per $1,000 of assessed value from $10 per $1,000 of assessed value.

School Act

- this Act is amended to authorize the Lieutenant Governor in Council to make regulations to provide school tax exemptions and refunds for alternative energy power projects.

Social Service Tax Act

- this Act is amended to:
  - increase incentives for the purchase of alternative fuel vehicles by:
    - converting the previous refund incentive into a point-of-sale tax reduction;
    - expanding the definition of hybrid electric passenger vehicle;
    - raising the maximum tax reduction amount for hybrid electric passenger vehicles to $2,000; reducing that maximum amount to $1,000 on April 1, 2008; and eliminating this tax reduction on April 1, 2009;
    - increasing the percentage reduction of tax from 30% to 50% for alternative fuel vehicles that are not hybrid electric passenger vehicles;

- increase the vehicle surtax threshold to $49,000 from $47,000;
- provide an exemption for energy efficient residential heating equipment until March 31, 2007;
- require all amounts collected as environmental levies on tires and batteries to be remitted to Government;
- increase the maximum price of self-contained smoke or fire alarms, eligible for exemption, from $50 to $250;
- provide an exemption for recordings of moving picture and audio productions, or copies thereof, acquired for public broadcast, exhibition, sale or lease or for copying into other such productions. A provision is also made to ensure that persons eligible for the exemption are required to pay tax if they themselves exhibit the moving picture.

Insurance Premium Tax Act

- this Act is amended to:
  - clarify the application of tax for persons who are licensees under the *Real Estate Services Act*;
  - provide the Commissioner of Income Tax, or other authorized officer of the Ministry of Provincial Revenue, with the authority to require records to be kept and allow them to be accessed to administer and enforce the tax;
  - clarify that a corporation or partnership is resident in British Columbia if it has a permanent establishment in the province.

Motor Fuel Tax Act

- this Act is amended to:
  - impose a penalty for the unauthorized purchase or use of coloured fuel;
  - clarify that farmers may use coloured fuel in any unlicensed vehicle (such as threshers, combines, loaders, ATVs and snowmobiles) under certain conditions.

Tobacco Tax Act

- this Act is amended to provide appropriate officials with the authority to seize tobacco products that were not purchased from an authorized wholesaler. The quantity of seized products can be up to a maximum of 1,000 grams (50 cartons).

International Financial Activity Act

- this Act is amended to:
  - clarify and expand the appeal provisions;
  - change the name "IFC International Financial Centre Society of Vancouver" to "International Financial Centre British Columbia Society" in the Act to reflect the recent change in the society's name.

Health Authorities Act

- this Act is amended to:
  - clarify that property tax exemptions apply to public hospitals managed directly or as a public-private partnership in the following situations:
    - property held or occupied for future hospital use;
    - space occupied by organizations on behalf of the Health Authority that is used for Health Authority purposes;

- space occupied by not-for-profit organizations that would be exempt under another act if they were the owner; and
- space occupied and used for teaching purposes by physicians who have academic appointments with the medical faculty of the University of British Columbia and are credentialed members of the teaching hospital.

Financial Administration Act

- This Act is amended to:
  - clarify that money received, held or collected by a government corporation is not public money unless it is money payable to the government under an enactment.
  - allow the minister, instead of Treasury Board but subject to Treasury Board direction, to authorize payment out of the consolidated revenue fund for government expenditures if amounts are payable to or received by government for those expenditures.

Special Accounts Appropriation and Control Act

- This Act is amended to:
  - establish the Production Insurance Special Account, which indemnifies farmers for crop failures under the British Columbia Crop Insurance Program.
  - repeal the section related to the Habitat Conservation Fund Special Account, which has not been in use for several years.

South Moresby Implementation Account Act

- This Act is amended to:
  - provide the government with the ability to act in accordance with the agreement made between the federal and provincial governments for the establishment of the South Moresby Park whether or not that agreement is amended before or after March 31, 2000.

Wildlife Act

- This Act is amended to:
  - move the trusteeship of the Habitat Conservation Fund from the minister to a public officer appointed by the Lieutenant Governor in council, and provides details for the constitution and proceedings of the board.

Freedom of Information and Protection of Privacy Act

- Schedule 2 of this Act is amended to:
  - remove the Habitat Conservation Fund Public Advisory Board as a result of repealing sections of the Special Accounts Appropriation and Control Act that relate to payments out of the Habitat Conservation Fund.

Insurance for Crops Act

- This Act is amended to:
  - clarify when money may be paid out of the consolidated revenue fund to satisfy a liability of government that arising from carrying out the Federal-Provincial-Territorial Framework Agreement on Agricultural and Agri-Food Policy for the Twenty-First Century.

Budget 2005

Towards a Golden Decade for British Columbia

February 15, 2005

SLIDE 1

The challenge in 2001

Then

- BC was 9th in job growth
- Net interprovincial migration was negative from 1998 to 2002
- Housing starts declined by 15.4% a year
- "Government is operating in a fundamentally unsustainable manner"- *Fiscal Review Panel, July 2001*

SLIDE 2

A clear and consistent plan

- Build a strong and vibrant economy
- Sound fiscal management
  - Balance the budget while protecting funding for health care and education

SLIDE 3

The plan is working....

Now

- 1st in job creation
- Net interprovincial migration positive
- 1st in housing starts growth in 2004
- Balanced budget: 2nd straight year and record debt paydown
- Spending on health and education increased by $5.8 B since 00/01

SLIDE 4

Credit rating upgrade

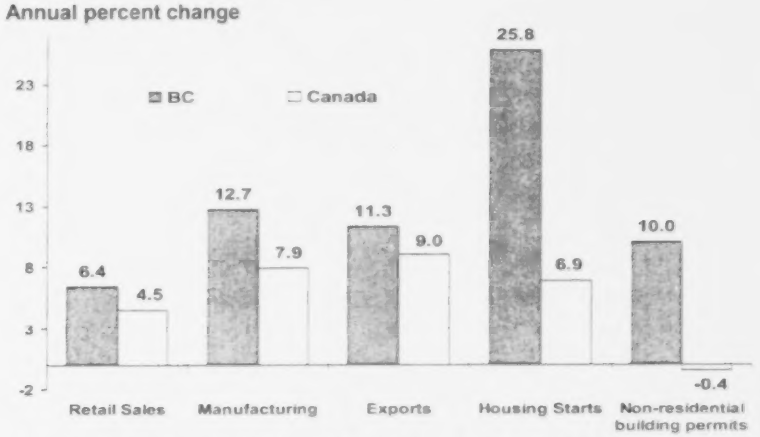
November 2004 Standard and Poor's upgrade to AA from AA-

S&P noted BC's record for:

- consistently meeting budget targets;
- solid economic performance;
- enhanced reporting transparency; and
- low debt to GDP ratios.

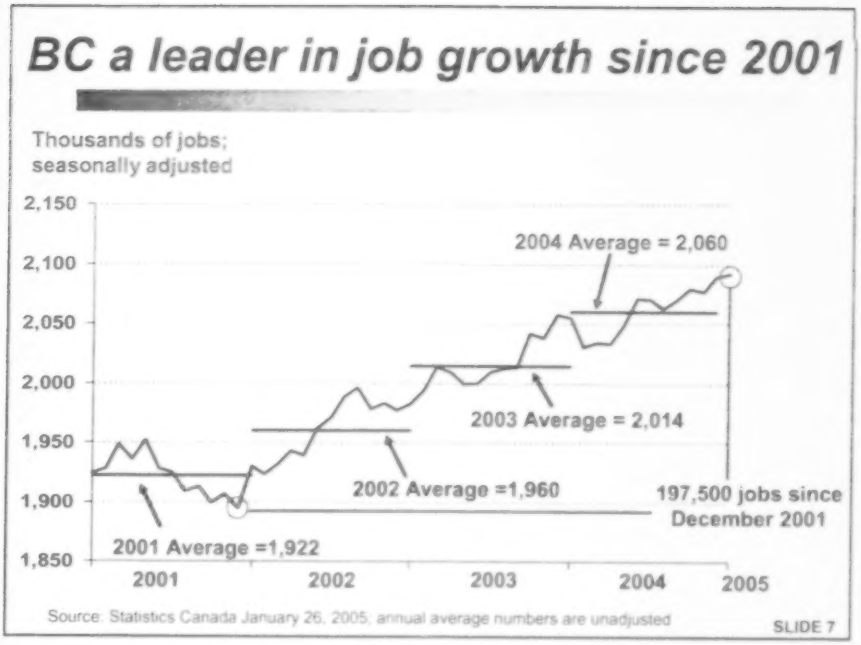
SLIDE 5

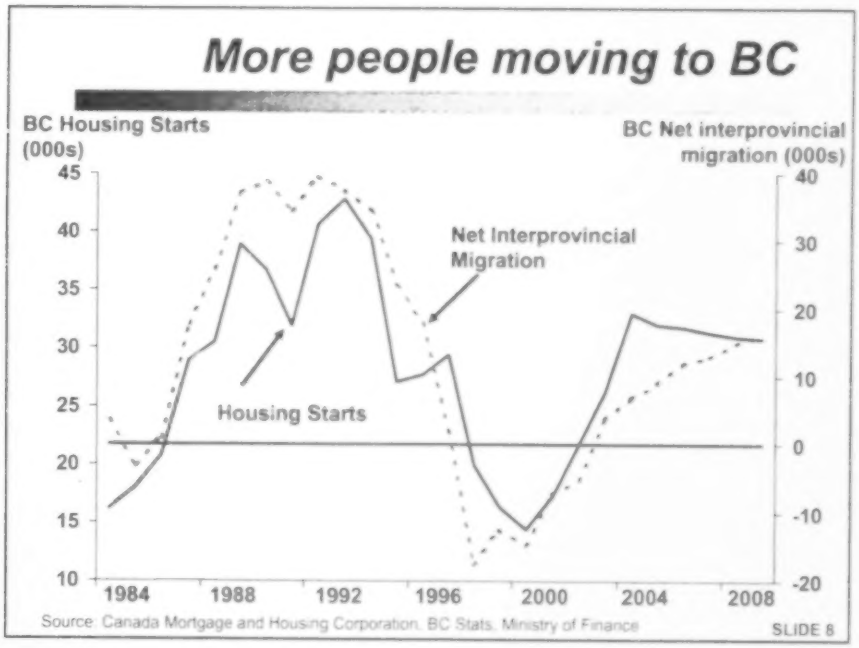
An economic leader in Canada

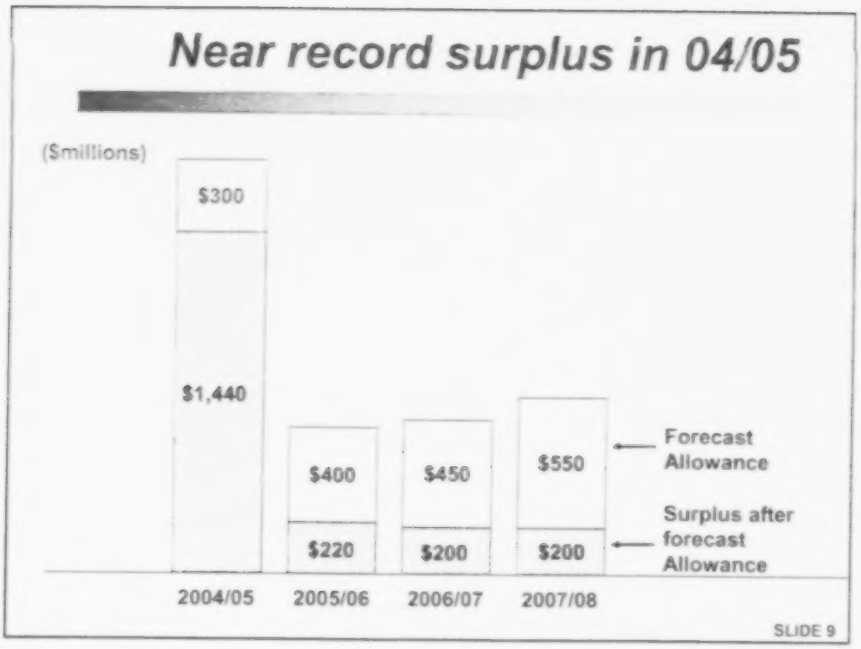


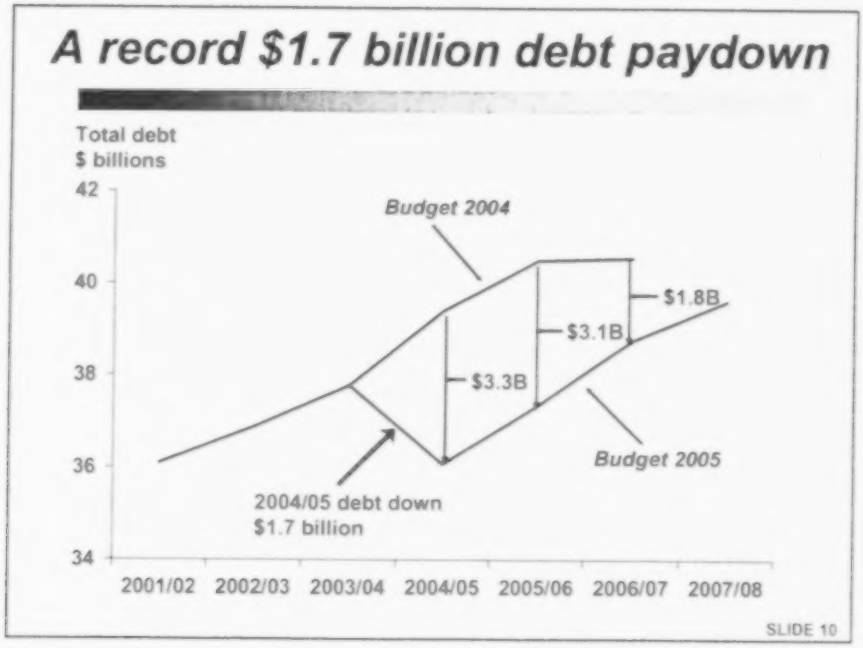
Source Statistics Canada, CMHC. Data seasonally adjusted (except exports, housing starts and non-resident building permits). Data to November except Housing Starts and building permits (December).

SLIDE 6

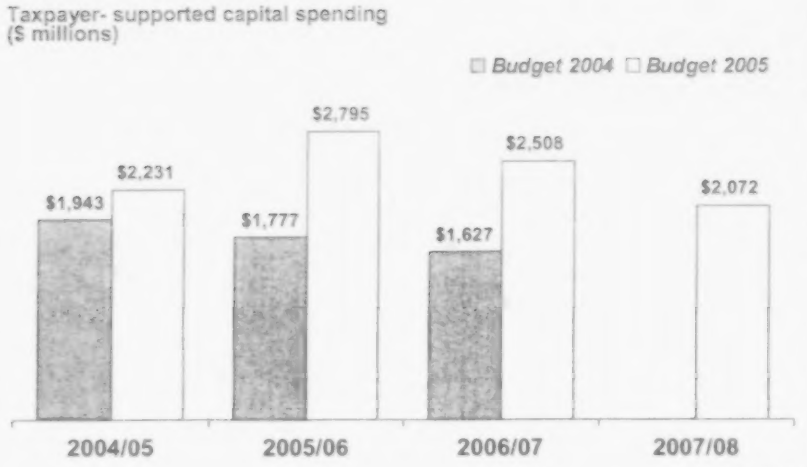

BC a leader in job growth since 2001
Thousands of jobs;
seasonally adjusted
2,150
2,100
2,050
2,000
1,950
1,900
1,850
2004 Average = 2,060
2003 Average = 2,014
2002 Average =1,960
2001 Average =1,922
197,500 jobs since
December 2001
2001
2002
2003
2004
2005
Source: Statistics Canada January 26, 2005; annual average numbers are unadjusted
SLIDE 7


More people moving to BC
BC Housing Starts
(000s)
BC Net interprovincial
migration (000s)
45
40
35
30
25
20
15
10
40
30
20
10
0
-10
-20
Net Interprovincial
Migration
Housing Starts
1984
1988
1992
1996
2000
2004
2008
Source: Canada Mortgage and Housing Corporation, BC Stats, Ministry of Finance
SLIDE 8


Near record surplus in 04/05
($millions)
$300
$1,440
$400
$450
$550
Forecast Allowance
Surplus after forecast Allowance
$220
$200
$200
2004/05
2005/06
2006/07
2007/08
SLIDE 9

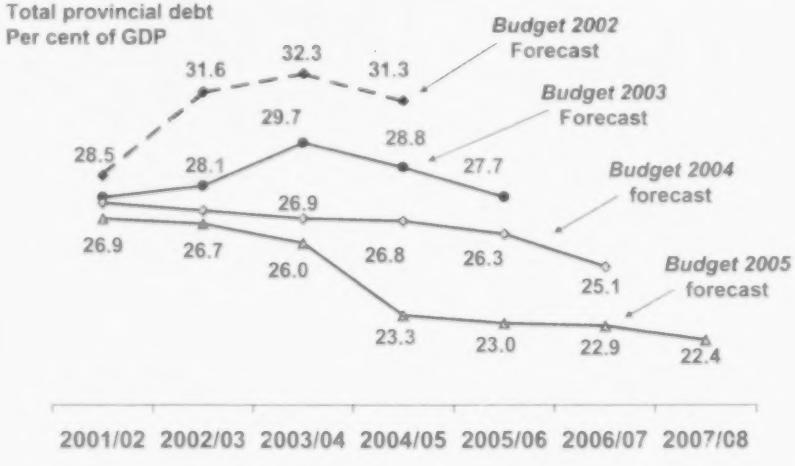

A record $1.7 billion debt paydown
Total debt
$ billions
42
40
38
36
34
Budget 2004
$1.8B
$3.1B
$3.3B
Budget 2005
2004/05 debt down
$1.7 billion
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
SLIDE 10

New capital for a growing province



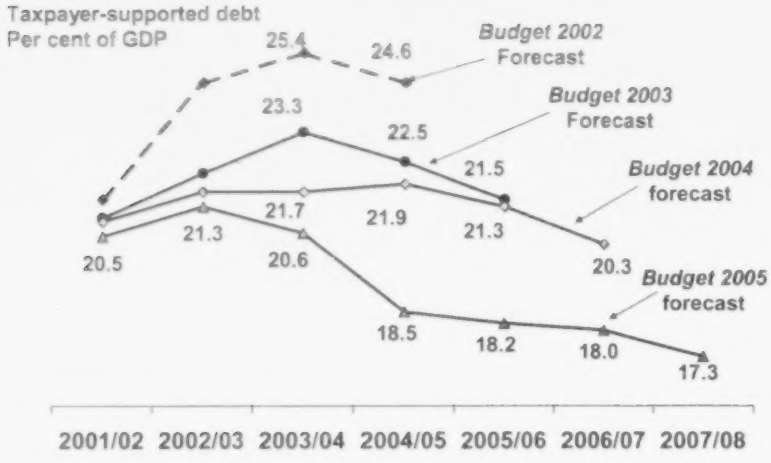
SLIDE 11

Provincial debt as a % of GDP declines



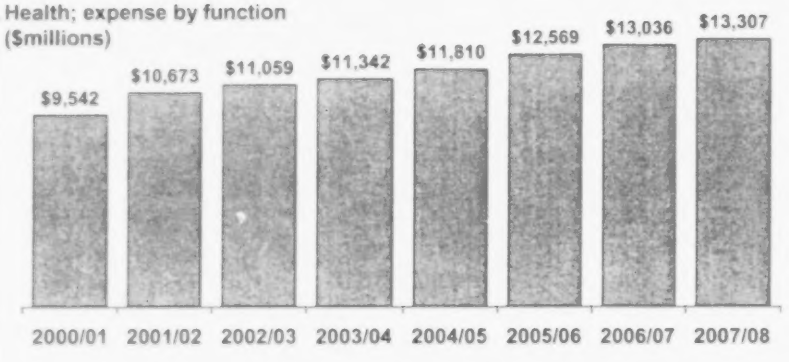
SLIDE 12

Taxpayer supported debt to GDP



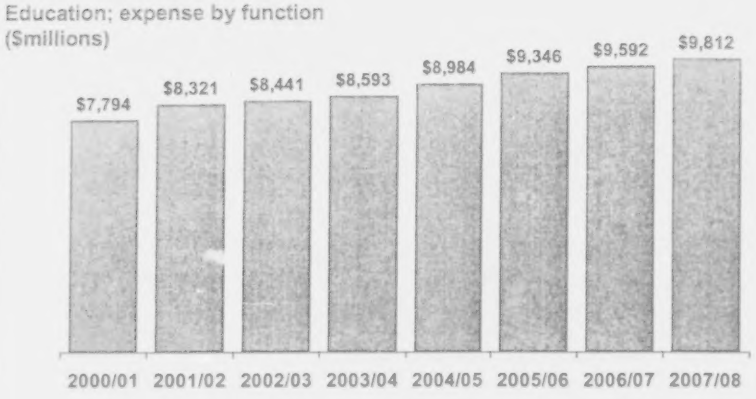
SLIDE 13

$3.8 B increase in health spending



SLIDE 14

$2.0 B increase in education



SLIDE 15

Plan enhances services

- Services for children ($241 million)
- Communities ($618 million)
- Safety ($198 million)
- Services to Build the Economy ($777 million)
- Environment ($150 million)

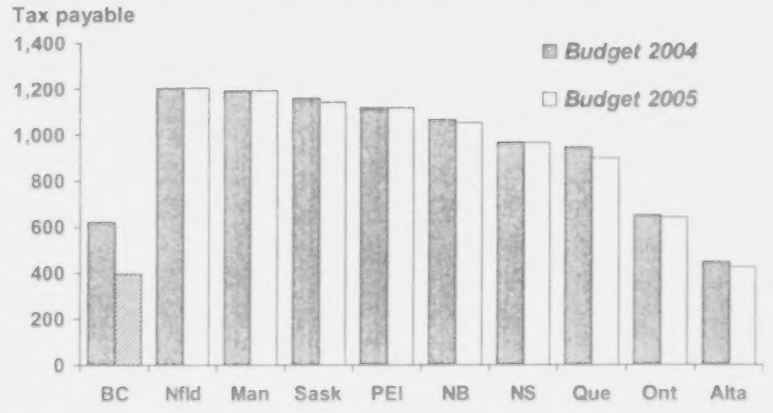
SLIDE 16

Low and moderate income taxpayers share the benefits

- BC Tax Reduction will reduce or eliminate taxes for about 730,000 BC taxpayers
- MSP premiums for 215,000 British Columbians reduced or eliminated

SLIDE 17

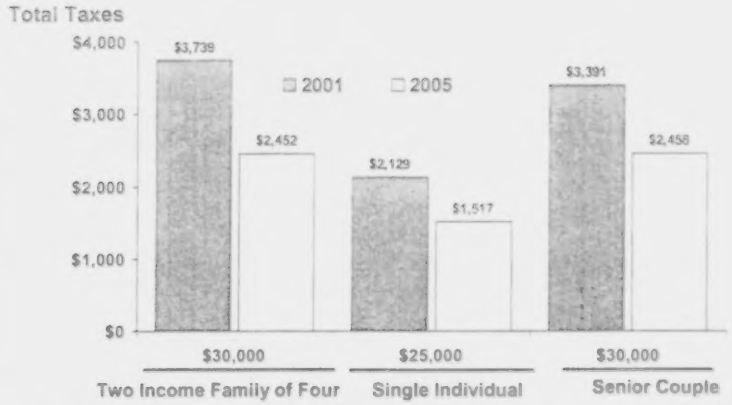
Lowest taxes at low income levels



Calculated for a single taxpayer with wage income of $20,000, no deductions and claiming the basic personal credit and credits for CPP contributions and EI premiums only
Source: Ministry of Finance

SLIDE 18

Change in taxes 2001 versus 2005



Taxes for 2001 are calculated based on rates in effect prior to June 2001; taxes for 2005 are calculated based on rates announced in Budget 2005. Includes provincial personal income, consumption, MSP premiums and estimated provincial and municipal property taxes.
Source: Ministry of Finance

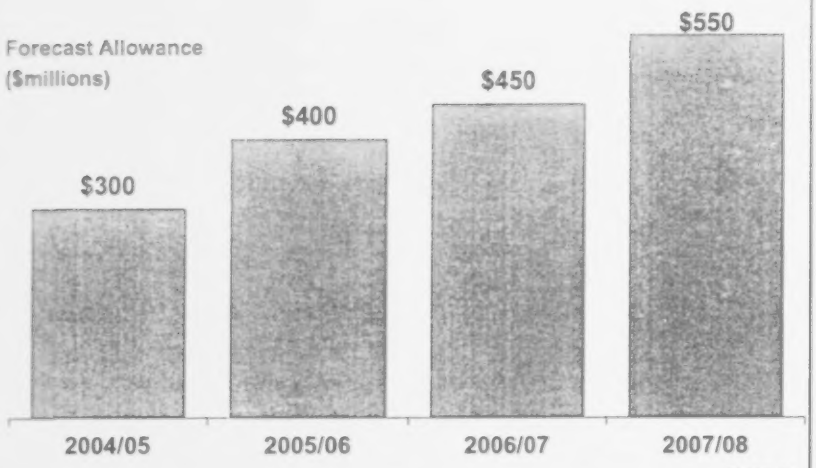
SLIDE 19

Other key tax reductions

- Small business corporate income tax threshold increased to $400,000 – the second highest among provinces
- Increase thresholds for 1st time home buyers' exemption by 18%
- Increased film tax credits
- Home Owner Grant thresholds increased
- Reduction in provincial sales tax rate

SLIDE 20

And....sound fiscal management



SLIDE 21

Towards a Golden Decade

- BC an economic leader
- Record debt paydown
- Balanced budget for the second straight year
- Spending for health and education protected and increased by $5.8 B

SLIDE 22

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SLIDE 23